

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application)
of Rocky Mountain Power for) Docket No.
Authority to Increase Its Retail) 07-035-93
Electric Utility Service Rates)
in Utah and for Approval of Its)
Proposed Electric Service)
Schedules and Electric Service)
Regulations, Consisting of a)
General Rate Increase of)
Approximately \$161.2 Million Per)
Year, and for Approval of a New)
Large Load Surcharge.)

TRANSCRIPT OF HEARING PROCEEDINGS

TAKEN AT: Public Service Commission
160 East 300 South, Room 403
Salt Lake City, Utah

DATE: June 4, 2008

TIME: 9:02 a.m.

REPORTED BY: Kelly L. Wilburn, CSR, RPR

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14 (The previous exhibits and related testimony
15 were prefiled and are part of the PSC record
and filed at the Commission.)

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1 JUNE 4, 2008 9:02 A.M.

2 P R O C E E D I N G S

3 COMMISSIONER BOYER: Welcome to day three of
4 the revenue requirement portion of the Rocky Mountain
5 rate case. Today we're going to hear from
6 Messrs. Duvall, Dalton, and Falkenberg. Educate us on
7 net power costs.

8 Are there any preliminary matters we need to
9 address before we begin? Mr. Mattheis?

10 MR. MATTHEIS: Thank you, Mr. Chairman. I'd
11 like to enter the appearance of Eric Lacey on behalf
12 of Nucor Steel. He's also with the firm Brickfield,
13 Burchette, Ritts & Stone, out of Washington.

14 COMMISSIONER BOYER: Very well. Welcome.

15 MR. MATTHEIS: Thank you.

16 MR. LACEY: Thank you.

17 COMMISSIONER BOYER: Okay. With that, let's
18 commence with Mr. Duvall. He's already assumed his,
19 position.

20 Now, did you testified in the -- have you
21 been sworn in this case? I don't think you have, have
22 you.

23 THE WITNESS: I was in the test period.

24 COMMISSIONER BOYER: Test period, yes, okay.
25 Then you're still sworn.

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1 All right. Well, let's proceed then,
2 Ms. McDowell.

3 Ms. McDowell: Thank you, Mr. Chairman.

4 GREGORY M. DUVALL,
5 called as a witness, having been duly sworn,
6 was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MS. McDOWELL:

9 Q. Good morning, Mr. Duvall.

10 A. Good morning.

11 Q. Can you state your full name and spell it for
12 the record, please?

13 A. My name is Gregory M. Duvall, D-u-v-a-l-l.

14 Q. Mr. Duvall, how are you employed?

15 A. I'm employed with PacifiCorp as the director
16 of long-range planning and net power costs.

17 Q. Mr. Duvall, in that capacity have you adopted
18 the prefiled testimony, direct testimony of Mr. Mark
19 Widmer filed in this proceeding?

20 A. I have.

21 Q. And in that capacity have you also prepared
22 and filed supplemental direct testimony and rebuttal
23 testimony and exhibits?

24 A. I have.

25 Q. Have you prepared a summary of that

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1 testimony?

2 A. I have.

3 Q. Please proceed.

4 A. Okay. I'd like to start my summary by
5 referring to page 4 of my rebuttal testimony. Where
6 I've laid out a table of not only the Company's
7 recommendations but also some benchmarks for the
8 Commission's information.

9 In terms of, in terms of the Company
10 recommendations, we recommend a net power cost in this
11 proceeding of 1 billion 44 million. That's our
12 Alternative 1, which is in my Exhibit GND 1R-RR.

13 And we also have performed a power cost study
14 with updates and -- including many of the issues that
15 the parties have raised in this proceeding. And that
16 is our Alternative 2, which shows 1 billion
17 47 million.

18 We have adopted the 1 billion 44 million as a
19 concession, from our study that we did the alternative
20 to. The CCS recommendation, originally 986 million,
21 with the surrebuttal position based up to 1 billion
22 and 2 million.

23 The net -- for the, the benchmarks that I've
24 laid out in this table the net power costs now in
25 rates in Utah is 813 million. And that's going to be

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1 in rates at least for eight months this year. And
2 even if that were combined with the Company's
3 recommendation of a billion 44 for the last four
4 months of this year, Utah ratepayers would be paying
5 net power costs during calendar year 2008 of
6 890 million.

7 The actuals for calendar year 2007 were
8 975 million. And the actuals for the 12 months ending
9 March 2008 were 1 billion 24 million. Taking the
10 first three months of actuals for 2008 combined with
11 the Committee's original net power costs run,
12 combining those together, three months and nine
13 months, would result in net power costs for 2008 of
14 1 billion 60 million.

15 Another benchmark is to look at the Oregon
16 TAM filing, which was fully litigated. It was for the
17 test year 2008. And what we've done here is just
18 update that for the loads that are included in this
19 Utah case. And that net power cost is 1 billion
20 32 million.

21 And then finally, updating that Oregon TAM
22 just for the loads that we know for sure just during
23 the first three months of 2008 results in a net power
24 cost of 1 billion 60 million.

25 So what I conclude from this is that net

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1 power costs are rising sharply, about 40 to 50 million
2 dollars every six months. This was demonstrated by
3 the test period ruling in this case, where our net
4 power costs were reduced from 1 billion 91 million to
5 1 billion 51 million.

6 Another point is that recovery of net power
7 costs in Utah are extremely low, and will continue to
8 be so even if the Company's position is accepted. The
9 1 billion 44 million is reasonable, given the evidence
10 in this case. And the 1 billion 2 million is
11 extremely low, both for 2008 and 2009.

12 So that's, that's an overall look at various
13 benchmarks in the Company's recommendation. We have,
14 after reviewing surrebuttal testimony, we've agreed
15 to -- or will agree to three adjustments that were
16 raised by parties.

17 The first was the monthly call option
18 adjustment raised by Mr. Higgins. I spoke with
19 Mr. Higgins about this. And we have no more issues
20 between us and UAE.

21 The second, Mr. Falkenberg raised an issue of
22 reshaping hydro to match the forward price curves. We
23 agree with that. He estimated that to be \$500,000.
24 And then also Mr. Falkenberg's exclusion of west side
25 self-generation facilities.

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1 We actually intended to pick these up in my
2 rebuttal testimony, and then it was simply an
3 oversight. And we agree that those should be removed.
4 All of these together add up to about a million
5 dollars.

6 And based on the Company's Alternative 2 of a
7 billion 47 million, that would be reduced to about a
8 billion 46 million. And still, with a \$2 million
9 concession, would get us down to a billion 44 million,
10 which these adjustments would not change the Company's
11 final recommendation.

12 So I'd like to just go through quickly the
13 remaining issues. All the remaining issues are with
14 the Committee. And all but one are about model inputs
15 and algorithm changes. The only one that has to do
16 with prudence is the pricing of the SMUD contract.

17 That's a contract that was entered into
18 20 years ago. Any prudence determination on that
19 would need to be based on the information that was
20 available 20 years ago. We think this is a little
21 beyond a reasonable adjustment.

22 The SMUD shaping, Mr. Falkenberg has singled
23 out the SMUD contract as one to de-optimize. All of
24 the other contracts in the GRID study have been
25 optimized -- fully optimized. This is the only one

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1 he's pulled out for de-optimization. We think this is
2 unfair.

3 The commitment logic. This is one of the
4 adjustments that we have incorporated in our
5 Alternative B. This -- we've agreed to put
6 screenings -- nighttime screens on Currant Creek and
7 Lake Side, and light load hour screens on West Valley.

8 The maintenance schedule. This is another
9 one we've made a change on to move maintenance on-call
10 plants out of January and February. We agree that
11 plants should not be -- maintenance schedules should
12 not have coal plants out in January and February.

13 And I'd like to say on the maintenance
14 scheduling that matching history in this case is very
15 difficult, because in a normalized power cost study we
16 maintain every unit. That is the, the normalizing
17 approach.

18 In reality, we don't do that each year. And
19 so we have to take -- we have to make up a maintenance
20 schedule that includes every plant and fit it into the
21 spring and fall. And that's what we've done. And
22 what history can provide as a guide to us is that the
23 maintenance goes in the spring and the fall.

24 And I think strict adherence to history is,
25 is not necessarily the correct thing to do. And it

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1 doesn't recognize changes in the fleet, plant
2 additions, different types of maintenance practices.
3 We're adding low NOX burners, under the Clean Air Act,
4 to many of our plants. So we have many different
5 types of maintenance going on as we move forward.

6 Mr. Falkenberg moved outages to the spring
7 from the fall. And included outages in the summer
8 month of June, when loads are increasing. Then again,
9 this is, this is not a prudence issue. This is a, a
10 modeling-based issue. And I think an aggressive
11 modeling assumption on maintenance lowers the cost
12 recovery for prudent plant maintenance costs, which in
13 the end can affect reliability.

14 On a heat rate modeling and minimum loading.
15 Although Mr. Falkenberg says this is the industry
16 standard, he's not proposed it prior to January of
17 this year. His adjustment assumes that plants can run
18 at levels below their physical minimum. That they run
19 to their highest efficiency during forced outages.
20 And that there are no, no partial forced outages.

21 This is not possible. And it doesn't
22 represent system operation. And most importantly,
23 represents the systematic under recovery of net power
24 costs. And further, it's not compatible with the
25 weekday/weekend split on forced outages, which is

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1 another one of his adjustments.

2 For call options I've indicated that we've
3 agreed with Mr. Higgins' monthly screens. However,
4 Mr. Falkenberg takes an additional step and removes
5 call premiums in selected months. This is not
6 commercially possible. And would be the same as not
7 paying your auto insurance premium in months that you
8 didn't have a claim. Removal of the call premiums
9 would represent at least two-thirds of his adjustment.

10 The weekday/weekend forced outages, in his
11 direct testimony Mr. Falkenberg argued that these were
12 random -- the forced outages were random events. And
13 then on his surrebuttal says they aren't random. He's
14 presented some data.

15 When we review the data more comprehensively,
16 there is no more apparent weekly pattern of forced
17 outages than there is a monthly pattern. Again, this
18 is not compatible with the heat rate minimum loading.

19 Ramping. The Company agreed, in surrebuttal,
20 to remove ramping from gas plants. In his -- in
21 rebuttal, I'm sorry. In his surrebuttal
22 Mr. Falkenberg put in a new analysis, but that was
23 based on ramping rates that were mismatched to the
24 ramping adjustments.

25 He's used operating ramping rates, which are

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1 to be used when a plant's actually running and it's
2 hot. And what the ramping adjustment is all about is
3 starting from a cold start. And based on what -- the
4 data that -- or the data that Mr. Falkenberg's put in,
5 it shows that coal plants can go from a cold start up
6 to full load in much less time than they're really
7 capable of doing.

8 He has them going to full load in about an
9 hour. Where in reality it takes six to ten hours to
10 take a cold plant from a cold start up to its full
11 capability. He also in his numbers, if you look at
12 them, will show that a coal plant can ramp up faster
13 than a gas plant.

14 The Company's also included electric swaps
15 and gas index trades. This was simply an oversight in
16 the original filing. The Company had included
17 electric index trades and gas swaps, which are the
18 counterpart of that. It's simply a mistake. So we've
19 updated to add those in.

20 And then finally, the Company has made
21 updates to the power cost study. We've actually
22 adopted many of the updates that the parties have
23 suggested. Things like Sunnyside, for example,
24 including the new prices.

25 We've also added in the update to the March

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1 forward price curves. That was worth about
2 7 1/2 million in terms of increased power costs as
3 forward price curves have been going up. And since we
4 know what's already happened for the first five months
5 of the test period, we think it's reasonable.

6 And upon checking the prices on May 23rd,
7 prices are actually up an additional 10 percent. And
8 if we were to run those through the net power cost
9 study, that would increase net power costs by another
10 10 million dollars.

11 MR. PROCTOR: Mr. Chairman, I'm very reticent
12 to interrupt his summary -- or opening statement or
13 closing argument, but I think I have to in this case,
14 I believe Mr. Duvall is referring to exhibits that
15 this Commission has rejected for admission.

16 And I don't understand the Commission's
17 rejection of the exhibit to say, But you can go ahead
18 and state what they contain in your summary. So I
19 would object to his most recent statements about any
20 May 23rd gas price update. And I would ask that they
21 be stricken from the record.

22 COMMISSIONER BOYER: Ms. McDowell?

23 MS. McDOWELL: Mr. Chairman, these are the
24 kind of updates and responses that you have been
25 allowing throughout the hearing in summaries. This is

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1 a -- there's been a specific challenge to the forward
2 price curve. Mr. Duvall is just responding to that
3 challenge by saying it's a reasonable update based on
4 the current information.

5 MR. PROCTOR: Mr. Chairman, except for the
6 fact that he's here to give a summary of his
7 testimony, which is direct and rebuttal. And that
8 appears nowhere in his testimony. He may have updated
9 to another date in his rebuttal, but that's as far as
10 his updates went.

11 COMMISSIONER BOYER: Well, certainly we want
12 accurate information in the record. On the other
13 hand, these are rejections. And at some point we have
14 to cut them off. I guess the other mitigating factor
15 is there's gonna be another rate case filed within
16 days, we're told.

17 Does any of the other lawyers want to weigh
18 in on this issue of whether or not Mr. Duvall's
19 testimony on these forward curves should be stricken
20 from the record? Okay. Let us consider this for a
21 second.

22 (Pause.)

23 COMMISSIONER BOYER: Well, we have in this
24 proceeding allowed some of the witnesses to update
25 their information. Mindful of the concerns that

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1 Mr. Proctor has expressed, I believe we'll, we'll let
2 that testimony remain in the record.

3 But we're going to give it appropriate
4 weight, inasmuch as it is a, it is a projection and at
5 some point we have to, we have to stop. I mean we, we
6 have to, you know, put a ribbon around the record that
7 we have and make decisions based on what we have
8 before us.

9 That will be our ruling.

10 MR. PROCTOR: Thank you Mr. Chairman.

11 COMMISSIONER BOYER: Go ahead Mr. Duvall.

12 THE WITNESS: Okay. I'm almost done.

13 Overall, my rebuttal testimony made significant
14 changes to the GRID model to accommodate suggestions
15 made by the parties in their direct case. This
16 resulted in a \$7 million decrease from the net power
17 costs that were in my supplemental testimony.

18 In summary, the Company recommend --
19 recommendation of 1 billion 44 million is reasonable,
20 supported by sound analysis. It's consistent with all
21 other parties' positions, other than the Committee.
22 And will result in rates, net power costs, that are
23 well below the net power costs expected in 2008 or
24 2009. Thank you.

25 COMMISSIONER BOYER: Thank you Mr. Duvall.

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1 Ms. McDowell?

2 MS. MCDOWELL: Mr. Duvall is available for
3 cross examination.

4 COMMISSIONER BOYER: Very well, thank you.

5 Let's begin Mr. Ginsberg.

6 MR. GINSBERG: I didn't any questions.

7 COMMISSIONER BOYER: Let's move now to
8 Mr. Proctor.

9 MR. PROCTOR: Thank you Mr. Chairman.

10 CROSS EXAMINATION

11 BY MR. PROCTOR:

12 Q. Mr. Duvall, the last statement that you made
13 is that if this Commission were to grant the Company
14 the net power costs that you request here, either
15 1 billion 44 million or 1 billion 47,000, it will
16 still result in a net power cost rates that are lower
17 than the actual costs that you expect; is that
18 correct?

19 A. That is correct.

20 Q. That's what you said?

21 A. That's what I said.

22 Q. And that's, that's the same thing that
23 happened, according to your chart on page 4 underneath
24 the heading "Benchmarks," where you appear to complain
25 that your actual net power costs in 2007 were greater

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1 than the net power costs that you were allowed in the
2 last general rate case. Correct?

3 A. I have simply laid out some benchmarks for
4 the Commission's consideration.

5 Q. Well, your benchmark is that the net power
6 cost in rates is less than your actual net power
7 costs; is that correct?

8 A. That is correct.

9 Q. Is your load that you forecast, upon which
10 the \$813 million net power cost was based, precisely
11 the same as your actual loads that you received in
12 calendar year 2007?

13 A. No. And in fact that was brought up in
14 Mr. Falkenberg's surrebuttal.

15 Q. Well, let me ask you this. Was it higher in
16 actual 2007 than you had forecast in your 2006 general
17 rate case?

18 A. Yes, it was. And Mr. Falkenberg pointed that
19 out in his surrebuttal testimony. That that would
20 have added about \$40 million to that net power cost in
21 rates figure. But still combined with the -- for
22 that -- for eight months and combined with the billion
23 44 for four months would still result in rates of
24 about 927 million for calendar year 2008.

25 Q. The forecast that the Company proposed and

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1 utilized in its 2006 general rate case was a
2 fully-forecast test period, was it not?

3 A. I don't know.

4 Q. Did you not participate in that --

5 A. I did not --

6 Q. -- rate case?

7 A. -- participate in that rate case.

8 Q. This rate case is a fully-forecasted rate
9 cause also, is it not?

10 A. Well, it's, it is a forecast for a test
11 period that has five months of history at this point
12 in time.

13 Q. It is a fully-forecasted test period, the
14 test period being calendar year 2008. Do you
15 understand that to have been the Commission's order?

16 A. I understand the test period is 2008.

17 Q. And in fact later on in your testimony, early
18 on, however, you complain about that order because,
19 according to you:

20 "The test year decision has
21 increased the regulatory lag the Company
22 faces in a time of steadily-increasing
23 power costs."

24 That's on page 10 at line 208. Do you recall
25 right -- that being your answer?

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1 A. Yeah. And I would characterize it as
2 statement of fact, not a complaint.

3 Q. But nevertheless, the Company -- the
4 Commission has made that decision. And it is true
5 also that it is the Company that is responsible for
6 preparing the load forecasts. Just -- in this case,
7 just as it did in 2006 general rate case, correct?

8 A. Correct. The Company prepares the load
9 forecast.

10 Q. Do you understand that it's this Commission's
11 decisions also that errors in forecasting are to be
12 borne by the utility?

13 A. I'm not aware of that.

14 Q. Well, let me give you an example of an error
15 that may have occurred in forecasting in the calendar
16 year 2007. When the Company prepared its 2006 general
17 rate case did the Company forecast that Lake Side
18 power plant would come online in early summer,
19 certainly before the summer peak of 2007?

20 MS. McDOWELL: Objection, he's just indicated
21 he was not involved in the 2006 rate case.

22 MR. PROCTOR: If he's aware of that
23 particular -- of the facts surrounding that particular
24 power plant, then he can say he's -- he can answer the
25 question. If he's not aware of any of those issues

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1 then he can say, I don't know anything about it. And
2 we'll go on.

3 COMMISSIONER BOYER: That's actually what I
4 was going to counsel you to do, Mr. Duvall. If have
5 you knowledge of this, you can answer. If you not --
6 if you do not, say so.

7 THE WITNESS: I'm aware that there was
8 forecasts for Lake Side to come on at a certain time
9 and it came on a little bit later. But to move from
10 talking about the load forecast to talking about a
11 forecast of a plant, the plants aren't included in the
12 load forecast.

13 Q. (By Mr. Proctor) Was that plant going to be
14 serving part of your load?

15 A. Sure.

16 Q. Do you know when the Lake Side plant was
17 to -- was expected to come online?

18 A. I don't recall any exact dates.

19 Q. You don't recall or you don't know?

20 A. I don't know.

21 Q. So therefore you wouldn't know when it
22 actually came online then?

23 A. I do not know the exact date that it came
24 online.

25 Q. Do you know whether or not the Company had to

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1 purchase market power in order to replace power that
2 Lake Side would have produced but did not because it
3 was late coming online?

4 A. If Lake Side weren't there the Company would
5 have to buy power.

6 Q. Do you have any knowledge or information
7 about how much the Company had to buy over that
8 summer?

9 A. I do.

10 Q. And how much was it?

11 A. I believe we responded in data requests that
12 it was somewhere around \$30 million.

13 Q. And so -- thank you. Mr. Duvall, another
14 issue I want to talk to you about or ask you questions
15 about in particular begins on page 13 of 14 of your
16 rebuttal testimony. And in particular looking at
17 page 14, at line 294, you state:

18 "A prudent standard works well to
19 measure a utility's power costs as it
20 does to measure other utility costs."

21 Are you on behalf of your employer, Rocky
22 Mountain Power, suggesting to this Commission that it
23 should adopt a prudent standard to determine net
24 present -- or net power costs for the test period of
25 calendar year 2008?

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1 A. I think that there's many considerations that
2 the Commission ought to look at, and one of them is
3 certainly prudence.

4 Q. So you are, in fact, proposing that they
5 adopt a prudent standard in order to determine the net
6 power costs that will be allowed in rates?

7 A. In part, yes.

8 Q. Would you define your prudent standard that
9 you would recommend they use in calculating the net
10 present -- or net power costs for the test period?

11 A. Well, I think that the statement really goes
12 back to the benchmarks. And reviewing the different
13 benchmarks to make sure that you don't get lost in the
14 trees for the forest inside the optimized net power
15 cost model. And make sure that whatever results you
16 are getting out of that make sense.

17 And I think with regard to prudence, as I
18 mentioned in my summary, there's only one issue raised
19 in this case that has to do with prudence, and that
20 was the SMUD pricing. All of the rest of them had to
21 do with model algorithms and inputs.

22 Q. I understand however that your statement,
23 which you confirmed you made and which you agreed, is
24 that the prudent standard works well to measure a
25 utility's power costs. And you stated that you would

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1 recommend that this Commission adopt in part a prudent
2 standard in determining this test period's net -- or
3 net power costs.

4 Now, sir, define the prudent standard that
5 you believe this Commission should apply in
6 determining that net power cost.

7 MS. McDOWELL: Objection, he just answered
8 that question.

9 MR. PROCTOR: No, he didn't. He did not
10 define it. He gave you a speech about what he had
11 said earlier.

12 COMMISSIONER BOYER: Are you asking, though,
13 for a legal opinion as to what constitutes prudence?

14 MR. PROCTOR: He needs to -- he is using a
15 standard. He needs to define what that standard is.
16 A standard being a measure against which a particular
17 result is going to be -- or how -- a measure of a
18 particular result.

19 COMMISSIONER BOYER: Okay, overruled.

20 You may answer that question if you can,
21 Mr. Duvall.

22 THE WITNESS: Okay. Well, I think I have
23 already answered but I can, I can add to it. I mean,
24 looking at -- as the Commission looks at the net power
25 cost results, you know, the 1 billion 2 million from

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1 the Committee, the 1 billion 44 million from the
2 Company and all the other benchmarks, I think prudence
3 is really taking into account all of the facts, other
4 than just the model inputs and algorithms.

5 Q. (By Mr. Proctor) In other words -- and I
6 won't accept that as a definition. But I think what
7 you're trying to say, Mr. Duvall, is your forecasts
8 were wrong before. You end up -- ended up under
9 forecasting your loads.

10 And so you set, in your last general rate
11 case, a certain net power costs. This Commission
12 agreed that that was a just and reasonable rate. You
13 don't think it was. And so they think you ought to
14 give you more this time (sic)?

15 MS. McDOWELL: Objection, argumentative.

16 COMMISSIONER BOYER: Could you rephrase the
17 question?

18 MR. PROCTOR: I'll try.

19 COMMISSIONER BOYER: Or rephrase the
20 intonation maybe.

21 MR. PROCTOR: I apologize for my tone. I'm
22 not wearing my bow tie today, so I'm not as mindful.

23 THE WITNESS: I noticed.

24 Q. (By Mr. Proctor) On page 6 of your rebuttal
25 testimony, Mr. Duvall -- and I'll withdraw that prior

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1 question. I apologize.

2 You complain on page -- on line 14 -- 114
3 that:

4 "The net power costs have been
5 steadily increasing industry wide, so
6 the use of partial or full historical
7 test years contributes to the under
8 recovery."

9 Do you see that?

10 A. Yes, I do.

11 Q. In the 2006 general rate case I believe you
12 don't know what kind of test year was used; is that
13 right?

14 A. That's correct.

15 Q. Will you assume, please, that it was a
16 fully-forecasted test period?

17 A. Is that assumption --

18 Q. Will you assume that?

19 A. Well, I don't know. You're calling this one
20 a fully-forecasted test period but we're five months
21 into it. Is that the kind of test period you are
22 talking about? I don't know.

23 Q. Well, I'm not gonna argue what the
24 Commission's order may have been in the other case or
25 in this one. Later on, in page 119 of that -- of

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1 page 6 on line 119 you talk about that the under
2 recovery and the factors leading to under recovery are
3 exacerbated when, and on No. 3, line 124 you state:

4 "That interveners propose modeling
5 adjustments without a demonstration that
6 the Company's modeling approach is
7 imprudent or unreasonable."

8 Do you see that?

9 A. Right. Yes, I do.

10 Q. Is it the Company's position, as detailed in
11 your rebuttal testimony, that before the Committee or
12 the Division or Intervener may make an adjustment to
13 your net power costs they must first prove that your
14 GRID model, for example, is imprudent or unreasonable?

15 A. Well, I don't really think that's what is
16 meant. That I meant by that.

17 Q. So that is not the Company position?

18 A. Well, I think it really goes to a number of
19 adjustments which are -- that have been made in this
20 case that really don't make a lot of sense to me. So,
21 I mean it's -- I don't know what else to say about
22 that.

23 Q. I think that probably says enough.

24 MR. PROCTOR: I have no further questions.

25 COMMISSIONER BOYER: Thank you, Mr. Proctor.

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1 Moving now to Mr. Sandack. Have you
2 questions for this witness?

3 MR. SANDACK: No, sir.

4 COMMISSIONER BOYER: Mr. Dodge?

5 MR. DODGE: Thank you Mr. Chairman. I do
6 have a few questions.

7 CROSS EXAMINATION

8 BY MR. DODGE:

9 Q. Mr. Duvall, on page 4 of your rebuttal, just
10 for clarification, the column -- or excuse me, the row
11 listed NPC Now in Rates. And then you compare that to
12 the actual NPC in the next row for 2007.

13 Just for clarification, in rate making the
14 Commission tries to adopt both normalized and adjusted
15 and audited numbers, correct?

16 A. Correct.

17 Q. And in your actual 2007 there's no attempt to
18 normalize or adjust, right? Those are just reported
19 numbers for one point in time, correct?

20 A. Yes, that's correct.

21 Q. And then down a couple -- two rows below that
22 where you say projected 2008 NPC, three months actual,
23 nine months CCS model. There again, the three months
24 actual are unadjusted, unaudited numbers. Not
25 normalized.

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1 They're just actual data for three months.

2 And then you're adding that to nine months of
3 projected normalized adjusted numbers, correct?

4 A. That's correct.

5 Q. So those don't really give -- that's kind of
6 combining apples and oranges a bit, isn't it?

7 A. Well, they are what they are. I mean, we've
8 put them out there for benchmarks. And I think as you
9 go through and make adjustments to the actuals, which
10 we actually do in some of our other states where they
11 have a peak M, for example, in Wyoming, you know,
12 there are some adjustments.

13 But, you know, for the majority of those
14 numbers are pretty good numbers.

15 Q. It also gives rise, does it not, to a concern
16 about forecasting accuracy? If in December '07 we
17 miss by 17 percent the forecasts for actuals for the
18 first three months of '08?

19 A. I think Mr. Eelkema talked about forecasting
20 accuracy the other day. I think he indicated that our
21 forecasts on a temperature-normalized basis were below
22 actual for those three months. They were above actual
23 on a non-temperature adjusted basis. So I don't think
24 it really does.

25 Q. So if that's the case then the numbers are

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1 somewhat misleading to add unadjusted, non-normalized
2 numbers to projected numbers if in fact your
3 normalized numbers are pretty close to the projection?
4 I mean, in other words it is mixing apples and
5 oranges?

6 A. Well, I --

7 MS. McDOWELL: Objection, that question I
8 don't think was clear. So I'm afraid the record is
9 not gonna be clear unless you restate it.

10 Q. (By Mr. Dodge) Earlier I said is it not
11 mixing apples and oranges to add three months of
12 actual unadjusted non-normalized data to nine months
13 of projected normalized numbers. And you said, Well,
14 it is what it is, but it throws out numbers.

15 And then when I point out that, you know,
16 that you're complaining about a 17 percent delta
17 between projections and actuals for the first three
18 months. And you defend the forecasting accuracy to
19 say, Well, that's because they're not normalized.

20 It goes back to my point. Aren't you in fact
21 then adding apples and oranges if a 17 percent delta
22 between projections and actuals is all explained by
23 normalization?

24 A. I'm not aware of a 17 percent delta. Is that
25 the -- or is that the actuals for the first quarter

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1 net power costs?

2 Q. Yes, 17 percent delta between the first
3 three -- first quarter of 2008 actuals to projection,
4 line 45 of your testimony on page 2?

5 A. Yeah. And -- okay. Okay. And that 17
6 percent is about net power costs, it's not about load
7 fluctuations. The load fluctuations forecasts versus
8 actual were much, much smaller than 17 percent.

9 Q. Let me go back to my question. Does it not
10 give some rise to forecasting accuracy if your net
11 power cost number, your projection for net power cost
12 is off by as much as it is in the first three-quarters
13 of the month, given a projection made just the month
14 prior to the beginning of that quarter?

15 A. Not at all. I think, I think the issue here
16 is that given the market that we're in with such high
17 prices, I mean, the prices these days are probably a
18 hundred dollars a megawatt hour in the markets. And
19 little fluctuations get amplified significantly. And
20 so the result of small fluctuations can have big
21 impacts on net power costs.

22 Q. Let me move on, Mr. Duvall. On page 17 of
23 your rebuttal, the Q&A at the top of that page. You
24 disagree with the proposal of Mr. Fal --
25 Mr. Falkenberg to include in the future non-firm

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1 transmission in the GRID modeling.

2 And I'm a little troubled by your notion that
3 it shouldn't even be considered. If, in fact, the
4 Company regularly relies upon non-firm transmission,
5 and if there were a way to reasonably reflect that in
6 a model, wouldn't that add accuracy to the model that
7 ought to be considered?

8 A. Well, this is a multi-part question. First
9 of all, I think Mr. Falkenberg points out in his
10 surrebuttal that the non-firm wheeling is a very small
11 piece. And I think that by trying to take a model
12 that optimizes the system -- and you have to recognize
13 that it's a simplification of the system.

14 And to layer on things that, you know,
15 non-firm transmission, for example. Again, small
16 thing. Speculative, don't know whether it's there or
17 not. That's why it's called non-firm.

18 To try to lower net power costs in a model
19 that doesn't, doesn't take into account all of the
20 intricacies and constraints and everything that's
21 already on the system. You know, it's simplified for
22 purposes of modeling. I think is a stretch.

23 Q. It's somewhat similar to the argument the
24 Company made for some time that you can include
25 capacity factor for wind because you can't be

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1 guaranteed that wind will blow; is it not?

2 A. I'm not aware of that argument.

3 Q. Okay, then I won't address that. Finally,
4 just to clear up -- and I think your, your summary was
5 clear on this, but I'm not completely sure. You
6 accepted Mr. Higgins' monthly screens on your -- on
7 the monthly call option issue; is that correct?

8 A. That's correct.

9 Q. And the, the implications of those monthly
10 screens or the reduction to net power cost was
11 included in your recalculation of 1.046 billion in net
12 power costs, right?

13 A. That's correct.

14 MR. DODGE: Okay, thank you. No further
15 questions.

16 COMMISSIONER BOYER: Thank you Mr. Dodge.

17 Mr. Reeder?

18 MR. REEDER: Just a few, if I may.

19 CROSS EXAMINATION

20 BY MR. REEDER:

21 Q. You and I are in an awkward position. I'm
22 directly at your back, and I apologize for the
23 awkwardness. But I will try to give you time to turn
24 to the Commission and answer as we talk, Mr. Duvall.

25 COMMISSIONER BOYER: Is your microphone on,

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1 Mr. Reeder?

2 MR. REEDER: It is. I think it is. I'll
3 pull it closer.

4 COMMISSIONER BOYER: Thank you.

5 Q. (By Mr. Reeder) Mr. Duvall, let's look first
6 at your chart on page 4 if we might again, where you
7 and Mr. Dodge were talking. The number \$975 million
8 is the actual net power costs there is a number that I
9 suppose I can foot in your 2007 statement of
10 operations to this Commission if I wished to do that?

11 A. I'm not sure what you are talk talking about.

12 Q. Would you have someone on your staff --
13 rather than pursue it on cross examination -- help me
14 discover what numbers in your results of operation on
15 file with this Commission as to 2007 results of
16 operation sum to the \$975 million?

17 Now, I haven't been able to add that. But
18 your staff can maybe show the columns that I should be
19 adding to arrive at that number. That would simply be
20 a request before we finish today. Would you help me
21 find where that number foots to your report to this
22 Commission? One of my old accountability issues.

23 A. We can show you exactly how they match.

24 Q. Thank you, we'd appreciate that. Sticking
25 with this same chart for a minute. The \$975 million

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1 for 2007 is based on the level of sales for the year
2 of that -- that particular year, is it not?

3 A. It is.

4 Q. And as your sales increase, the revenue that
5 you recover for net power costs would also increase if
6 the increment in rates is adequate to compensate you
7 for energy costs, would it not?

8 A. It -- the revenues would increase, that's
9 correct.

10 Q. So one of the real challenges for this
11 Commission is to assure that, in the rates that are
12 designed, the increment attributed to energy is
13 adequate to cover you for their costs?

14 A. Yeah. And I think that goes back to
15 Mr. Falkenberg's surrebuttal testimony where he took
16 into account the fact that our loads are higher and we
17 have more revenues. And that he suggested because of
18 that that our net power costs would be 40 million
19 higher than what's actually in the rates.

20 And that's what I walked through earlier,
21 which showed that even taking that into account the in
22 rates net power costs for 2008, even accepting the 10
23 point -- or the 1.044 billion proposal of the Company
24 would still be understated.

25 Q. So one of your complaints is that the rates

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1 were improperly designed. That you're not recovering
2 enough energy in each rate?

3 A. I have no comment on rate design.

4 Q. But that's essentially what you've just told
5 this Commission, isn't it?

6 A. It's not what I've told this Commission. I
7 think there's, you know, issues between what embedded
8 costs and marginal costs are. That rates are set on
9 embedded costs. And when we have to go out in the
10 wholesale market we have to deal with marginal costs.

11 Q. Let's move to the GRID model if we might for
12 a moment or two. Your reference to the GRID model is
13 to try to develop a forecasted power cost as best you
14 can, is it not?

15 A. That's correct.

16 Q. And it's purely coincidental when the
17 forecasted cost somehow matches the actual cost?

18 A. Well, it's not coincidental, but it's
19 desired.

20 Q. The GRID model has been subject to some
21 criticism over time, hasn't it?

22 A. Yes, it has.

23 Q. In fact the GRID model in this case you've
24 proposed a number of workarounds because some of the
25 modeling problems that have been discovered in this

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1 case, have you not?

2 A. Yes, I have.

3 Q. On a going-forward basis how can this
4 Commission assure accountability that those
5 workarounds that are discovered today aren't the same
6 problems that we have to discover again next year and
7 have discussion about them in continuing cases?

8 A. Well, I think the, the big, the big issue
9 that I detail in my testimony is what we call the
10 "commitment logic." And this is where -- this has
11 been a, an issue with GRID for quite a few years. And
12 there's been several attempts to fix it.

13 And we have workarounds that deal with this.
14 In the commitment logic generally what happens is that
15 units are -- gas units are committed and can't be
16 uncommitted. And it turns out that, that they are
17 running -- they're back down to a minimum load,
18 continuing to run at minimum load, while coal plants
19 then back down. So you're running gas plants instead
20 of coal plants.

21 And so we agree that that shouldn't be the
22 case. We, in this Version 6.2 of GRID we put in
23 some -- try and fix for that. People thought it was
24 gonna work, thought it worked. We filed a case
25 believing it was working. It's not working.

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1 And I've outlined that in my rebuttal
2 testimony. This workaround that we have we put on the
3 nighttime screenings for Currant Creek and Lake Side,
4 and then the off-peak screening for West Valley, as
5 well as the call option screening that we have agreed
6 to, we will continue to do those in future cases.

7 And that will, I think, pretty much alleviate
8 the issue until we can get the model fixed.

9 Q. What kind of a report or other showing are
10 you prepared to make to this Commission that indeed
11 you are repairing the GRID model as faults are
12 discovered?

13 A. Well, I think -- I don't know what kind of
14 showing we're making. I mean, we've -- this is by far
15 the biggest issue with the GRID model. And we'll
16 certainly work with the Commission and staff and
17 whoever to make sure that they're aware of what we're
18 doing.

19 Q. Let's talk about the commitment logic on
20 wind. What capacity factor does the GRID model commit
21 wind at?

22 A. Wind isn't affected by the commitment logic.
23 Wind is input into the model as a must-run resource
24 with a particular hourly profile.

25 Q. Is that hourly profile input in the GRID the

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1 same hourly profile used to economically justify the
2 acquisition of the site?

3 A. I would imagine that in many cases it is. I
4 don't know for a fact though.

5 Q. Would you object to this Commission directing
6 you to use that commitment logic to assure some
7 measure of accountability?

8 MS. McDOWELL: Objection, that question is
9 vague. I'm not sure if you're talking about the
10 commitment logic or the wind issues.

11 MR. REEDER: I'm sorry, maybe I misspoke. I
12 intended to say the profile for the wind used to
13 justify the acquisition of the wind site being the
14 profile input into GRID for determining the output of
15 that project.

16 THE WITNESS: I think, I think the answer to
17 that is no. I think as we move forward through time
18 and we get actual historic output data from the wind
19 facilities we will include the most recent information
20 in our GRID studies.

21 Q. (By Mr. Reeder) So your answer is you would
22 object to this Commission directing that you use the
23 logic and justification used to purchase wind as a
24 basis for the wind's operation?

25 A. I would suggest that's not a reasonable

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1 direction to go. I think that the Commission
2 appreciates the Company updating data to reflect the
3 most recent information they have.

4 Q. So are we going to perpetually chase the
5 nonperformance and the commitment logic on wind
6 through GRID?

7 A. Well, the, the commitment logic and wind
8 don't go together in the same sentence. The
9 commitment logic really has to do with gas plants.
10 And the -- it has nothing do with wind. So I'm not
11 quite sure I understand what the question is.

12 Q. Let's go to another area. Because GRID has
13 been the subject of so much criticism over so many
14 years does the Company have plans to replace it?

15 MS. McDOWELL: Objection, I don't think
16 there's any foundation for that.

17 MR. REEDER: Let's try it.

18 Q. (By Mr. Reeder) Mr. Duvall, how many years
19 have you and I been doing this?

20 MS. McDOWELL: What is "this"?

21 THE WITNESS: Well, I'm not sure which
22 question you would like me to answer.

23 Q. (By Mr. Reeder) Mr. Duvall, have you ever
24 been on that witness stand as a net power cost witness
25 without having the subject -- without having your

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1 model for projecting power costs subject to criticism?

2 A. Well, that's really the topic of my
3 testimony.

4 Q. It has been subject to criticism for a number
5 of years, hasn't it?

6 A. Well, that's just the nature of a production
7 cost model. It's not particular -- in particular to
8 this company. Anytime a company files for a rate
9 increase they have some kind of production cost model.
10 It's always subject to criticism.

11 Q. This model has been subject in each stage you
12 have presented it, hasn't it?

13 A. It's usually subject to some kind of
14 criticism, that's right.

15 Q. And it's been subject to criticism over time,
16 year after year, at each stage you present it, hasn't
17 it?

18 A. It has. And that's just the nature of
19 presenting power cost testimony.

20 Q. And this model is a homegrown model, isn't
21 it? Something that PacifiCorp developed itself?

22 A. It is.

23 Q. And there are commercial models out there,
24 the Henwood model and the PROMOD model that are used
25 by others, aren't there?

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1 A. I don't know for a fact, but I presume that's
2 correct.

3 Q. Have you ever investigated those commercial
4 models, the Henwood model or the PROMOD models or
5 others that are used for forecasting power costs?

6 A. Absolutely. We use those in our IRP.

7 Q. So you use other models in your IRP. What do
8 you use in your dispatch?

9 A. I don't -- I, I'm not really sure.

10 Q. Do you use GRID in your dispatch?

11 A. No, we do not.

12 Q. The only place you use GRID in this company
13 then is for developing a hypothetical power cost to
14 try to sell to the Commission, isn't it?

15 A. Well, that's the primary use of it.

16 Q. Move to another topic if we might. Moving to
17 your Exhibit No. 1, if I recall the exhibit numbers
18 correctly. That is your effort to update power costs?

19 A. Got it.

20 Q. The forward right-hand side we see Rebuttal
21 NPC Alternative 2; have I got that correct?

22 A. You got that correct.

23 Q. And I see the first item is electric swap
24 transactions, a million dollars, added to net power
25 cost. Is that what I see?

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1 A. That's correct.

2 Q. And I see index gas transactions at about a
3 million seven?

4 A. That's right.

5 Q. And then I see new information from March 8th
6 official price curves at about \$2.4 million?

7 A. That's right.

8 Q. So they're the additions that are essentially
9 added to the net power costs that result in the
10 increase as a result of a closer scrutiny in your
11 rebuttal testimony?

12 A. Well, the, the line 4, which is the new
13 information, and March 8th official price curves
14 includes many of the updates that were proposed by the
15 parties here. The Sunnyside contract, as I mentioned.
16 Other updates. The biomass non-generation agreement,
17 and so on.

18 And so there's quite a few updates that lower
19 net power costs. There's also the update to the
20 forward price groups all built into that one line.

21 Q. What are electric swaps?

22 A. Electric swaps, they're a financial
23 instrument for hedging electricity.

24 Q. What is index gas transactions?

25 A. They are financial instruments that are tied

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1 to an index.

2 Q. Mr. Duvall, is it the case that PacifiCorp
3 was 100 percent hedged financially on gas at the
4 beginning of this test year?

5 A. I don't know for a fact, but I would believe
6 that's pretty close to correct.

7 (Pause.)

8 MR. REEDER: Mr. Chairman, may I have marked
9 as the next Exhibit in order the Data Request 1.4 that
10 I've just handed out? I think I'm about 13, but I'm
11 not sure.

12 COMMISSIONER BOYER: We'll mark this as UIEC
13 Cross Exhibit 13.

14 Q. (By Mr. Reeder) Mr. Duvall, do you have
15 before you an exhibit that's been marked for
16 identification as Exhibit No. 13?

17 A. Yes, I do.

18 Q. And is this a data request of -- from Rocky
19 Mountain Power to data request we provided to them?
20 Or we asked of them?

21 A. Yes, it is.

22 Q. And does this disclose that their --
23 PacifiCorp Energy has hedged its natural gas exposure
24 in Utah?

25 A. Yes, it does.

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1 Q. And it indicates that it's hedged it to --
2 price hedged it at 100 percent, doesn't it?

3 A. That's correct.

4 Q. Let's talk for a minute about hedging. We
5 can physically hedge, can't we?

6 A. That's true.

7 Q. For this record let's make sure that the
8 conversation you and I are having will be understood
9 by others. What's a physical hedge?

10 A. Well, a physical hedge is where we would
11 enter into a forward agreement with a counterparty to
12 deliver gas at a particular point, in a particular
13 time, at a particular price.

14 Q. And what is a financial hedge?

15 A. A financial hedge would basically involve a
16 hedging of the price as opposed to the commodity.

17 Q. And you could hedge financially separately
18 from hedging physically, couldn't you?

19 A. That's correct.

20 Q. In fact the Company often does it, doesn't
21 that -- doesn't it?

22 A. We do that.

23 Q. Okay. Now, explain to me in terms of having
24 been in -- having been hedged a hundred percent on
25 price, why we suddenly have \$1.7 million additional

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1 gas costs appear in the net power costs in this case?

2 A. Well, as you, as you mentioned, we have
3 physical hedges and we have swaps. And swaps would
4 vary with market price.

5 Q. So you hedged physically with index, swapped
6 to financial, and this reflects the cost of that swap?

7 A. I don't know the details of it. I mean,
8 basically conceptually as long as you have
9 transactions that, that vary with market price --
10 which swaps and index transactions do -- that as you
11 have changing market prices you can see changes in
12 your gas costs.

13 Q. One can certainly infer from the evidence
14 here if you've got index gas transactions and you've
15 got hedged prices that there was a cost of that
16 transaction to move from index to firm prices in gas,
17 couldn't one?

18 A. I'm sorry, I didn't understand the question.

19 Q. One could certainly infer from the evidence
20 that appears in this record that if you bought gas at
21 index but were hedged firm financially that there was
22 a cost of moving from that fixed to firm price,
23 couldn't they?

24 A. I don't know.

25 Q. And you don't know then whether or not the,

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1 the cost of the index gas transactions reflects the
2 cost of that swap or something else?

3 A. So you're talking about the 1.7 million?

4 Q. Let's be clear. You told me in January your
5 price was fixed. You show up in May with a cost for
6 index. I'm trying to figure out why. Why? What is
7 it?

8 A. So why have we added the index gas
9 transactions?

10 Q. If you were fixed price, firm priced, why did
11 you add index costs?

12 A. I, I don't believe we said we were fixed
13 price. The indexed gas transactions were simply
14 overlooked. They were in place. They weren't picked
15 up when we put the GRID, GRID study together. They
16 were new transactions.

17 Our systems weren't set up to pick them up.
18 Nobody noticed they weren't picked up. Until we got
19 to year end and our, our financial folks noticed they
20 hadn't been picked up.

21 Q. Let's go back and look at 1.4. Hundred
22 percent of this natural gas price exposure is hedged.

23 A. Right. And part of those hedges are the
24 index gas transactions that we've added into this
25 case.

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1 Q. So when you told me that you were price fixed
2 on natural gas, you really had indexes?

3 A. I don't recall saying we were price fixed on
4 natural gas.

5 Q. What did you mean when you said that you
6 were -- that your natural gas price was hedged if you
7 didn't mean the price was fixed?

8 A. Well, I, I don't know.

9 Q. Thank you. Let's move to another topic.
10 Let's talk about the line that says Electric Swap
11 Transactions. Do you see that?

12 A. Yes, I do.

13 Q. And you and I have had similar discussions
14 about your electric position, haven't we?

15 A. I presume.

16 MR. REEDER: May we have marked as the next
17 exhibit in order a document that is UIEC 18.14, a data
18 request response?

19 COMMISSIONER BOYER: We'll mark this UIEC
20 Cross Exhibit 14.

21 Q. (By Mr. Reeder) Mr. Duvall, you have before
22 you a document that's been marked as Cross Examination
23 Exhibit No. 14, UIEC Cross Exhibit 14?

24 A. I do.

25 Q. And what is that document, sir?

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1 A. It's a data response to UIEC Data
2 Request 18.14.

3 Q. And it purports to show that you're hedged on
4 your electric position, doesn't it?

5 A. Which, which part are you looking at?

6 Q. Let's look at the attachment. That is -- I
7 think --

8 A. Okay.

9 Q. -- the description you've written to me to
10 try to describe your hedged position. And there is
11 the attachment to it, page 1, that shows your hedged
12 position, doesn't it?

13 COMMISSIONER BOYER: Mr. Reeder, you may
14 have, you may have turned your mic off.

15 MR. REEDER: I did, sorry. Too many papers.

16 Q. (By Mr. Reeder) Let's look at Attachment 2.
17 Attachment 2 is a document prepared by PacifiCorp that
18 shows open positions down as the second line from the
19 bottom.

20 When you subtract your system resources --
21 for which you have contracted -- from your system load
22 we show an open position month by month that's fairly
23 small. Five megawatt position in January. Five
24 megawatt position in December.

25 So you're pretty much hedged physically on

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1 your electric position for the year?

2 A. Yeah. And I would, I would say --

3 Q. And don't let any of us complain about that.

4 We're all -- we're glad that you've got enough

5 resources to take care of us.

6 A. I'm happy about that. But this is a, this is

7 a monthly average look. And as we operate our system,

8 every hour is a different position. And so I think

9 trying to generalize that we are fully hedged in every

10 hour is not really what -- when we say we're fully

11 hedged we're not, we're not saying that.

12 Q. Now, where you are physically hedged are you

13 also price hedged?

14 A. I think -- I mean, I guess I, I don't know

15 for sure. But to the extent we have swaps and index

16 transactions, we're not fully price hedged.

17 Q. Let's look at the last sentence on page 1 of

18 UIEC cross examination Exhibit No. 14. Would you read

19 that sentence for me?

20 A. I'm sorry, which sentence?

21 Q. The last sentence.

22 A. The last?

23 "The overall hedged price is the

24 Company's embedded cost, which is below

25 the March 2008 curve."

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1 Q. Okay. Let's go back and look at your
2 testimony where you increased the net power cost
3 because of the new curve. And ask how it is, if your
4 cost is below the curve, you increase the price?

5 A. Well, I think this is the -- yeah, the two
6 are disconnected. I mean, what the statement there
7 says that we are hedged at our embedded cost. I mean,
8 that's a pretty obvious statement. But as we have
9 prices -- market prices increase and gas prices
10 increase.

11 We -- especially in the electric, when we
12 have hourly transactions -- we see the forward price
13 curves go up 10 percent from September to March.
14 Overall our net power costs go up 7 1/2 million.

15 That's -- for that big of a change in, in
16 market prices a 7 1/2 million increase in a net power
17 cost base of over a billion dollars seems pretty small
18 to me. And I think reflects that we're highly hedged.
19 And that to the extent we have index and swap
20 transactions and maybe some imbalances and different
21 hours, I think that's really pretty reasonable.

22 Q. Mr. Duvall, are you an officer of PacifiCorp?

23 A. No, I'm not.

24 Q. Are you familiar with the contents of the
25 Form 10-K?

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1 A. No, I'm not.

2 Q. Do you assist in its preparation in any way?

3 A. I provide some inputs along the way.

4 Q. Did you provide any input to the 10-K
5 describing the energy costs and commodity price risks
6 and the Company's position with respect to that?

7 A. No, I don't.

8 MR. REEDER: Counsel, will there be a witness
9 in this proceeding who can explain the Company's
10 position with respect to commodity price risk and
11 derivative instruments, now that we're trying to
12 include those costs -- net power costs in this case?

13 MS. McDOWELL: Well, that issue was not
14 raised in any testimony, so we didn't put on
15 responsive witness. These costs have been in the case
16 since the original filing. And no one has raised an
17 issue on them.

18 Had somebody raised an issue we would have
19 provided a witness certainly in rebuttal to address
20 the kind of questions that you are raising.

21 MR. REEDER: Swaps and indexes first appeared
22 in Mr. Duvall's testimony. Is there someone who can
23 explain them? Because he can't.

24 MS. McDOWELL: Well, let me just say this.
25 That Mr. Duvall was clear that the companion swaps and

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1 index transactions were in this case from the
2 beginning, and no one raised an issue on them.

3 All Mr. Duvall's rebuttal did was add in the
4 companion contracts that had been left out at the
5 beginning. But there was -- half of those
6 transactions were in the original filing.

7 MR. REEDER: I guess the answer to my first
8 question is will we have a witness that will explain
9 it. The answer is no, nobody raised it. Fair enough.
10 I have nothing further.

11 I do have one other question, Mr. Duvall.

12 Q. (By Mr. Reeder) I have one other question
13 that's been troubling me since I've been reading your
14 10-K. It appears that the Company is fairly
15 significantly involved in derivative action with
16 respect to commodity risk and price risk on commodity.

17 How do we, as ratepayers, and this Commission
18 have any comfort, given your trading activity, that
19 we're not only -- that we're getting more than just
20 the bad deals?

21 MS. McDOWELL: Objection, there is no
22 foundation for this question. If you've got something
23 you're referring to in the 10-K I think you need to
24 show it to this witness.

25 COMMISSIONER BOYER: Sustained. You can try

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1 again.

2 MR. REEDER: We'll offer the 10-K then.

3 COMMISSIONER BOYER: We'll mark this as UIEC
4 Cross Exhibit 15.

5 Q. (By Mr. Reeder) Mr. Duvall, I have an
6 exhibit that's been marked for identification as
7 Exhibit No. 15. Do you have that exhibit in front of
8 you?

9 A. I do.

10 Q. Have you had a chance to confirm that the
11 pages from the 10-K, the annual 10-K for period ending
12 December 31, 2007, are indeed pages from that
13 document? I've handed to you the entire 10-K report.

14 A. I'll take your word for it.

15 Q. Mr. Duvall, let's first look at page 40 of
16 your 10-K report.

17 MR. REEDER: And this is a report the
18 Commission can take administrative notice of, isn't it
19 Counsel?

20 MS. McDOWELL: We have no objection to that.

21 Q. (By Mr. Reeder) Let's read under "Wholesale
22 sales and other revenues." Do you see that line on
23 page 40?

24 A. Up towards the top?

25 Q. It's about at the middle of the page.

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1 A. Okay, I see it. Yes.

2 Q. Wholesale sales and other revenues decreased
3 181 million due to fair value changes in derivative
4 contracts. Do you see that line?

5 Go down to the bottom of the page, Energy
6 Costs. Energy costs decreased \$77 million, 364
7 million of decreases due to changes in fair value of
8 derivative contracts. Are you familiar with those?

9 A. No, I'm not.

10 Q. Do you have any question but what this indeed
11 was the Company's practice in its reports financially?

12 A. I am really not an expert in this area.

13 Q. All right. Let's go on to page 82. To the
14 Commodity Risk page.

15 A. I've got it.

16 Q. PacifiCorp is exposed to market risk due to
17 variation in price. Then the action that PacifiCorp
18 takes is described in the next paragraph. PacifiCorp
19 purchases and sells forward on a yearly basis,
20 quarterly basis, hourly basis, and daily basis. Do
21 you see that line?

22 A. Yes, I do.

23 Q. Let's go over to Derivative Instruments, on
24 page 83. Read the last sentence of the first
25 paragraph under Derivative Instruments.

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1 A. "For those energy contracts that are
2 probable of recovery in rates, the
3 unrealized gains and losses on
4 derivative instruments are recorded as a
5 net regulatory asset or liability."

6 Q. Back to my question. How does this
7 Commission have any comfort that the transactions that
8 you're recording -- we don't know what they are -- are
9 more than just the bad ones?

10 A. Well, I think first of all the Commission
11 does have the ability to know what the transactions
12 are. We've had full discovery throughout this rate
13 case. And I think, you know, it's kind of odd that
14 there is this discussion about derivative instruments
15 when we have other things in our net power costs that
16 are huge benefits to customers.

17 Such as the Hermiston Gas contract. Looked
18 at that lately, and customers are gaining 100 and
19 200 million dollars per year of benefit from that
20 contract.

21 MR. REEDER: I have nothing further, thank
22 you.

23 COMMISSIONER BOYER: Mr. Reeder, do you wish
24 to move the admission of --

25 MR. REEDER: If I may offer Exhibits 13, 14,

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1 and 15.

2 COMMISSIONER BOYER: Are there objections to
3 the admission of these exhibits? Very well, they're
4 admitted.

5 Mr. Mattheis?

6 MR. MATTHEIS: No questions, your Honor,
7 thank you.

8 COMMISSIONER BOYER: I'm wondering,
9 Mr. Mattheis, for the record if you wouldn't mind
10 spelling your colleague's name into the record so that
11 we can enter that correctly?

12 MR. MATTHEIS: I sure would. It's Eric,
13 E-r-i-c, Lacey, L-a-c-e-y.

14 COMMISSIONER BOYER: Thank you very much.
15 Let's turn now to the Commission.

16 Commissioner Allen? Commissioner Campbell?

17 COMMISSIONER CAMPBELL: Mr. Proctor asked you
18 a question about Lake Side coming on late. And it was
19 unclear to me if the 30 million was a net figure or if
20 that was just the gross figure of the power that you
21 had to buy to replace the power that didn't come
22 online.

23 THE WITNESS: I believe that was a net
24 figure.

25 COMMISSIONER CAMPBELL: And with that

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1 \$30 million did the customers in Utah bear any of that
2 cost?

3 THE WITNESS: Not to my knowledge.

4 COMMISSIONER CAMPBELL: Do you -- maybe we
5 could step back and ask more of a global question. As
6 we look at your 813 million that was part of the last
7 rate case versus what's before the Commission in this
8 case, approximately 200 million increase in net power
9 cost, could you just categorize for us on a global
10 basis what drives that?

11 I mean, clearly load and price of gas, but
12 could you, could you rank them for us? Which ones are
13 the most significant and what's -- what is driving
14 this tremendous increase in net power cost?

15 THE WITNESS: Well, I think one of the
16 biggest pieces is load. The load growth. Another
17 piece is the increase in market prices. They've gone
18 up tremendously. Coal costs was another one, but I
19 think not as big as the others. I think those are the
20 main, main pieces.

21 COMMISSIONER CAMPBELL: And if an increase in
22 market prices is one of the main differences, I mean
23 is that -- has that been a corporate strategy to be
24 short as far as having steel in the gravel so to
25 speak?

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1 THE WITNESS: Well, I don't know that it's a
2 corporate strategy to be short. I think there's, you
3 know, the Company is adding resources. It also relies
4 on the market, as you are aware through the integrated
5 resource plan.

6 And I think a lot of it has to do with, you
7 know, there's a big cost of adding resources. And we
8 need to weigh the costs and the risks of the different
9 resource options as we move forward.

10 COMMISSIONER BOYER: Okay. I have no
11 questions of this witness.

12 Ms. McDowell, redirect?

13 MS. McDOWELL: Yes. Thank you, Mr. Chairman.

14 REDIRECT EXAMINATION

15 BY MS. McDOWELL:

16 Q. Mr. Duvall, both Mr. Proctor and Mr. Dodge
17 asked you some questions about the chart on your
18 testimony at page 4. Can you turn to that, please?

19 A. Right.

20 Q. Both of them asked you about the -- whether
21 the actual cost figures reflected some of the
22 normalizing adjustments that you would typically see
23 in a rate case result. Do you recall that
24 questioning?

25 A. I do.

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1 Q. Can you respond to whether the Oregon TAM
2 numbers there reflect those normalizing-type
3 adjustments?

4 A. Yes, they do.

5 MS. McDOWELL: That's all I have.

6 COMMISSIONER BOYER: Thank you Ms. McDowell.

7 Thank you Mr. Duvall, you may step down.

8 Let's proceed now to hear from Mr. Dalton,
9 for the Division.

10 (Mr. Dalton was sworn.)

11 COMMISSIONER BOYER: Thank you so much.

12 Please be seated.

13 Mr. Ginsberg?

14 JAMES B. DALTON,

15 called as a witness, having been duly sworn,

16 was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. GINSBERG:

19 Q. Would you state your name for the record?

20 A. James B. Dalton, D-a-l-t-o-n.

21 Q. And you're employed by the Division of Public
22 Utilities?

23 A. That's correct.

24 Q. And I -- your testimony has already been
25 admitted, but you filed direct, supplemental direct,

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1 rebuttal, and surrebuttal; is that correct?

2 A. That's correct.

3 Q. And in your direct you had a confidential
4 exhibit; is that right?

5 A. Yes, I did.

6 Q. So you filed both a confidential and
7 non-confidential version to your direct testimony?

8 A. Just confidential, I believe.

9 Q. And can you go ahead and provide your summary
10 of your testimony? I believe you have a correction to
11 one of your sets of testimony; which one is that?

12 A. I do. That would be to the direct and
13 supplemental testimony we submitted.

14 Q. And you'll provide that correction?

15 A. I will in the summary, yes. Thank you. The
16 Division's purpose was to identify and quantify
17 adjustments to the Company's net power costs in the
18 current case. The Division analyzed the number of
19 power cost related issues.

20 Based on this analysis the Division
21 determined that a number of adjustments were
22 warranted. First, the Division found that the
23 Company's power cost filing did not account for
24 Commission-approved changes to the Sunnyside,
25 Kennecott, and Tesoro PPAs. The power cost

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1 adjustments for these PPAs have been included in my
2 testimony.

3 Secondly, the Division found that planned
4 outage dates in GRID for several of the Company's
5 thermal generation units are not consistent with
6 historic outages. These assigned input dates also
7 occur outside of the Company's preferred planned
8 outage periods.

9 The Division adjusted the GRID inputs for
10 planned outage dates so that they more closely match
11 historical outages. This resulted in a reduction in
12 power costs of about \$3.3 million system wide.

13 Now, after submitting our direct and
14 supplemental testimony, Committee and Company
15 representatives noted that they had difficulty
16 replicating the Division's original planned outage
17 adjustments. And pointed out some additional
18 corrections to the Division's GRID inputs.

19 The Division acknowledged these corrections
20 and performed a revised GRID analysis. This revision
21 results in a \$4.3 million company-wide reduction in
22 power costs, or an approximate \$1.8 million value on a
23 Utah allocated basis.

24 This revised value matches one of the
25 Company's alternative planned outage adjustments

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1 listed in Mr. Duvall's rebuttal Exhibit GND-1R-RR.
2 This all -- also represents an increase of about
3 \$416,000 from our Utah allocated plant outage
4 adjustment, as filed in my direct testimony.

5 The Division also decided to withdraw its
6 rebuttal recommendation to increase the imputed price
7 for the SMUD contract \$54 per megawatt hour. When we
8 submitted this value we subsequently checked it
9 against the current levelized value in terms of
10 dollars per megawatt hour of the \$94 million payment
11 the Company received at the onset of the SMUD
12 contract.

13 Because the baseline Southern California
14 Edison contract price is expired, the Division decided
15 to use the levelized SMUD value as a proxy to check
16 our recommendation. This provides a representation of
17 how the Company may value the \$94 million payment at a
18 given point in the future.

19 When the Division added the calendar year
20 2008 \$21-per-megawatt-hour contract price to the
21 current levelized SMUD payment the result was
22 consistent with our rebuttal recommendation.

23 However, after further consideration, we
24 became concerned about summing the contract, the 2008
25 contract price, with the levelized SMUD prices,

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1 because this contract price was not determined upon
2 the same basis.

3 As a result, the Division did not believe its
4 earlier adjustment represented a properly imputed
5 value. In our surrebuttal testimony we stated that
6 the current imputed price is reasonable. We
7 acknowledge that this may be -- this statement may be,
8 excuse me, misleading. Perhaps better phrased would
9 be to show how the current imputed price serves as a
10 check on the reasonableness of the Division's
11 recommendation.

12 There is a significant difference between the
13 Division's rebuttal recommendation and the current
14 levelized value of the SMUD payment, which is very
15 close to the current \$37 imputed price. This
16 difference led us to believe that the Division's
17 rebuttal recommendation was erroneous.

18 The Division neither intended to imply that
19 the current levelized unit price from the \$94 million
20 payment should be viewed as a recommended imputed
21 value in this case, nor argued that this value
22 represents a compensatory imputed price.

23 Because of the issues mentioned above, the
24 Division withdrew our proposed rebuttal adjustment.
25 At the same time the Division does not argue that the

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1 current level of imputation is appropriate on a
2 going-forward basis.

3 This concludes my summary review.

4 COMMISSIONER BOYER: Thank you, Mr. Dalton.

5 We intend to take a ten minute recess so that
6 we can all stretch our legs and the reporter can rest
7 for a moment. Maybe this would be the logical time to
8 do that before we begin cross examination. So let's
9 take a ten minute recess.

10 (A recess was taken from 10:22 to 10:34 a.m.)

11 COMMISSIONER BOYER: I think for my
12 convenience, if no one else's, we'll begin with
13 Mr. Proctor and then move to the Company.

14 MR. PROCTOR: Thank you, Mr. Chairman.

15 CROSS EXAMINATION

16 BY MR. PROCTOR:

17 Q. Mr. Dalton, in preparing for your testimony
18 here today and throughout this proceeding have you had
19 occasion to review, read, and study testimony
20 submitted by Mr. Higgins, Mr. Falkenberg, and
21 Mr. Brubaker pertaining to net power costs?

22 A. I have.

23 Q. And would it be fair to state that they make
24 a number of adjustments to the Company's proposed net
25 power costs that, that you do not speak to in your own

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1 testimony?

2 A. That's correct.

3 Q. Now, should the Commission presume that your
4 silence is an indication that the Division of Public
5 Utilities agrees with the Company's proposed net power
6 costs?

7 A. No. We, we -- no.

8 Q. And on -- at the same time should the
9 Commission presume that you are speaking to or
10 addressing, either favorably or not favorably, the
11 adjustments made by those other witnesses?

12 A. That's correct.

13 MR. PROCTOR: Mr. Dalton, thank you.

14 THE WITNESS: Thank you.

15 COMMISSIONER BOYER: Thank you Mr. Proctor.

16 Ms. McDowell?

17 MS. McDOWELL: We have no questions for this
18 witness, thank you.

19 COMMISSIONER BOYER: Okay. Moving to
20 Mr. Sandack.

21 MR. SANDACK: No questions, sir.

22 COMMISSIONER BOYER: Mr. Dodge?

23 MR. DODGE: No questions.

24 COMMISSIONER BOYER: Mr. Reeder?

25 MR. REEDER: Surprise, no questions.

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1 COMMISSIONER BOYER: Very well. Commissioner
2 Allen?

3 I have one question for you, Mr. Dalton. You
4 were in the hearing room during Mr. Reeder's cross
5 examination of Mr. Duvall when he was asking about gas
6 and electric hedging, and swaps, and so on, and so
7 forth. Did the Division spend any time and energy
8 looking into those issues?

9 THE WITNESS: Yes, we did. It was our
10 understanding that the hedging process was, was
11 correct. That most of the energy prices were as
12 given, or close to the hedge price of the Company. In
13 the GRID model.

14 COMMISSIONER BOYER: Okay, thank you.

15 Mr. Ginsberg, anything further?

16 Thank you Mr. Dalton, you may step down. And
17 now we will move to Committee witness, Randy
18 Falkenberg.

19 Mr. Falkenberg, were you sworn earlier in
20 this case?

21 MR. FALKENBERG: No, I wasn't.

22 COMMISSIONER BOYER: Would you please stand
23 and raise your right hand.

24 (Mr. Falkenberg was sworn.)

25 COMMISSIONER BOYER: Thank you. Please be

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1 seated.

2 RANDALL J. FALKENBERG,
3 called as a witness, having been duly sworn,
4 was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. PROCTOR:

7 Q. Mr. Falkenberg, would you state your name and
8 by whom you're employed, sir?

9 A. Randall J. Falkenberg. I'm with RFI
10 Consulting, Incorporated.

11 Q. Mr. Falkenberg, on whose behalf are you
12 appearing here today?

13 A. Committee of Consumer Services.

14 Q. And in connection with appearing for them did
15 you have occasion to prefile with this Commission
16 written testimony that has been marked as CCS 4D
17 Falkenberg, confidential direct testimony consisting
18 of 92 pages, Exhibits 4.1 through 4.12, and in
19 addition rebuttal testimony marked CCS 4R Falkenberg,
20 consisting of 5 pages, and finally confidential
21 surrebuttal testimony marked as CCS 4SR Falkenberg
22 consisting of 55 pages, and Exhibits 4.1R -- I believe
23 that should be SR, through 4.7SR. Is that, is that
24 correct?

25 A. Yes.

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1 Q. Do you have any changes or corrections that
2 you wish to make to any of that testimony or exhibits?

3 A. No.

4 Q. Mr. Falkenberg, if I was to ask you today the
5 questions that you answered in that written testimony,
6 would your answers remain the same?

7 A. Yes, they would.

8 Q. In addition, Mr. Falkenberg, it's my
9 understanding that you have agreed and that the
10 parties have also agreed that you would sponsor the
11 direct testimony of Phil Hayet, which has been marked
12 and prefiled as CCS 5D Hayet, which is direct
13 testimony consisting of 33 pages, and Exhibits 5.1
14 through 5.3; is that correct?

15 A. That's correct.

16 MR. PROCTOR: We would offer then into
17 evidence, the exhibits as marked, by Mr. Falkenberg
18 and also that by Mr. Hayet.

19 COMMISSIONER BOYER: Are there any objections
20 to the admission of Mr. Falkenberg's confidential
21 direct testimony, his rebuttal testimony,
22 sur -- confidential surrebuttal testimony, and the
23 testimony of Mr. Hayet with exhibits? Seeing none,
24 they are admitted into evidence.

25 MR. PROCTOR: Thank you, Mr. Chairman.

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1 Q. (By Mr. Proctor) Mr. Falkenberg, have you
2 prepared a summary of the testimony that has been
3 filed -- that you have filed in this particular
4 proceeding?

5 A. Yes, I have.

6 Q. And as part of the summary have you also
7 prepared an illustrative exhibit that describes the
8 content of your summary which flows from the prefiled
9 testimony?

10 A. Yes, I have.

11 MR. PROCTOR: Mr. Chairman, I have handed all
12 counsel and the Commission a copy of that illustrative
13 exhibit. I can -- I have not provided it to the
14 reporter or your staff, however. If you wish me to do
15 so, I will. It is only illustrative.

16 COMMISSIONER BOYER: I think Ms. Orchard has
17 prepared additional copies. So you may proceed.

18 MR. PROCTOR: Oh, I have additional copies.
19 I just didn't know whether you wanted to make it a
20 part of the record or not.

21 COMMISSIONER BOYER: I don't think it's
22 necessary unless you wish it to be in the record.

23 MR. PROCTOR: No. As given its status, no.

24 Q. (By Mr. Proctor) Mr. Falkenberg, would you
25 provide that summary, please?

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1 THE WITNESS: Yes. What I understand from
2 the instructions I've been given, the Commission has
3 read the testimony and is well aware of all the
4 positions.

5 COMMISSIONER BOYER: Yes, Mr. -- I forgot to
6 tell you that, Mr. Falkenberg. You weren't here for
7 earlier proceedings. But we have, in fact, read the
8 testimony and so we've encouraged brief summaries.

9 THE WITNESS: Yes. And so I thought the most
10 helpful thing I could do for the Commission would be
11 to try to explain what the differences are that remain
12 between the positions of the committee and the
13 Company. And this illustrative exhibit enables us to
14 do that.

15 Originally the CCS -- Mr. Hayet and I
16 proposed some 30 adjustments. We are in, at this
17 point in time, I believe substantial agreement with
18 the Company on nine issues. Now, that doesn't
19 necessarily mean we have exactly the same number, but
20 I think for the most part we're either close enough or
21 that certain issues have been resolved. With
22 different recommendations.

23 We're in what I would call conditional
24 agreement on 12 issues, and I'll talk about that a
25 little bit. And we are in substantial disagreement on

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1 nine issues. And it's a little bit subjective to
2 discern the difference between the two, but I think as
3 I go through this you'll, you'll see.

4 The Committee's surrebuttal final net verbal
5 power cost is 1 billion and 2 million dollars.
6 Mr. Duvall's position -- the Rocky Mountain Power
7 rebuttal position is 1 billion and 44 million. So we
8 have a difference of some \$42 million.

9 So with all the areas of agreement that we
10 have the question then becomes, why are we so far
11 apart still? And I'll go down through the various
12 issues. First of all, with respect to the issue of
13 the GRID commitment logic -- which Mr. Duvall talked
14 about earlier today -- that's an area where we believe
15 there's about a \$10.9 million reduction that should be
16 made.

17 The Company has stated that the GRID logic is
18 flawed. It's been flawed for some time. But the
19 Company will only incorporate that change to a case
20 that isn't related to its rebuttal position. In other
21 words, even though the Company admits to that problem,
22 it doesn't reflect it in its rebuttal position. So it
23 leaves the uneconomic generation in its rebuttal
24 position.

25 With respect to issue of planned outages, we

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1 are in substantial disagreement. Even though the
2 Company agrees that there shouldn't be planned outages
3 for coal plants scheduled in January and February, the
4 final rebuttal position of the Company still includes
5 planned outages for coal units in January and
6 February.

7 With respect to the issue of ramping, we're
8 in somewhat of an agreement. The Company believes
9 that there should be a \$1.7 million adjustment. We
10 believe there should be a \$2.5 million adjustment.
11 But again, the Company conditions its acceptance of a
12 correction to ramping on including it in a scenario
13 other than it's a rebuttal position. The Company
14 includes the full ramping adjustment, even with the
15 error Mr. Duvall admitted to, in its rebuttal
16 position.

17 With respect to the issue of Hermiston
18 losses, the Company seems to accept the fact that it
19 overstated the Hermiston losses in the test year. It
20 seems to agree that it should correct them in a GRID.
21 And yet it has not corrected them in GRID in the
22 Company's rebuttal position.

23 The reason is that the Company believes this
24 is some sort of an update. In spite the fact that the
25 Hermiston losses have been known; were provided in a

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1 letter from BPA to the Company in February of 2005.

2 The Company is in somewhat of agreement with
3 respect to the principle that there should be
4 uneconomic generation corrections made for call
5 options -- which I estimated to be \$900,000 --
6 however, they made no such correction for the rebuttal
7 position that they filed.

8 The Company agrees that there should be an
9 adjustment made with respect to the Herm -- the
10 biomass non-generation agreement -- one of Mr. Hayet's
11 issues -- but again, didn't include it in its rebuttal
12 position.

13 With respect to the issue of transmission
14 adjustments, the Company seems to agree that it has
15 overstated the transmission costs it included in the
16 test year, but it has not reflected them in their
17 rebuttal position.

18 With respect to the issue of the minimum load
19 and heat rate item, we are in complete disagreement
20 with the Company. We believe it's a, an adjustment
21 that needs to be made in order to properly model
22 outage -- outages in the duration format used by the
23 Company.

24 With respect to SMUD, the Company -- we are
25 in complete disagreement with the Company. Contrary

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1 to Mr. Duvall's position, he, he stated this morning
2 that the SMUD contract was the only one of some 70
3 contracts that the Company had that has been
4 de-optimized.

5 Well, the fact of the matter is that there
6 are only a handful of contracts in GRID that the model
7 actually does any sort of optimization for. And those
8 are the call options. The call option purchases and
9 sales. The Company has already admitted that the GRID
10 commitment logic gets the call option purchases wrong.

11 The call option sales are SMUD, Black Hills
12 Power, and perhaps one or two other ones. SMUD is
13 incorrect. I've looked at Black Hills Power, it's
14 incorrect. In any event, we're in complete
15 disagreement on that.

16 The Company wants to include 3.2 million in
17 new costs. The hedging and index costs that we heard
18 about this morning through Mr. Reeder's cross
19 examination. We disagree. We believe there should be
20 a reduction in the wind integration expense. The
21 Company disagrees.

22 The Company disagrees about the call option
23 demand charges. The Company -- we are in disagreement
24 with the Company about the monthly outage rate.
25 Although the Company seems to agree that it shouldn't

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1 use a monthly outage rate, but it wants to couple that
2 with an unsupported other adjustments outage rates.

3 And then we have finally got several other
4 issues that are much smaller. Things like Kennecott,
5 Tesoro, balancing, that sort of thing that are
6 resulting in the remaining million and-a-half.

7 So areas of agreement are listed. These are
8 the items that we have either changed our
9 recommendation, or the Company has conceded the issue,
10 or we've conceded the issue, or whatever.

11 Now with respect to the, I think what is the
12 overarching question today, why are there so many
13 areas of what's known as conditional agreement? Well,
14 this is a situation where the Company is saying, We
15 will only make corrections to the GRID model if we can
16 go ahead and then change a lot of other things. Most
17 notably, the forward price curve.

18 The Company wants to update its forward price
19 curve to late March of 2008. And it wants to do that
20 on the basis of its comparisons to actual costs. We
21 disagree. We believe that the Commission gave the
22 Company the opportunity to do an update in February.
23 The Company chose not to do it.

24 We believe that the support for this
25 position, the comparison to actual cost, is completely

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1 misleading. Because the fact is that there are so
2 many differences between the historic period that
3 Mr. Duvall cites and the period of time that we're
4 looking at here that the comparisons are almost
5 meaningless.

6 For example, load changes. Changes due to
7 the in-service state of Lake Side. I think that the
8 Company admitted that's \$30 million. That's bigger
9 than any single adjustment that I've proposed. Those
10 are the kinds of things that need to be controlled for
11 if you're gonna compare actual costs to GRID model
12 results. You've got to get them on the same test
13 year. The Company didn't do that.

14 So I fundamentally view Mr. Duvall's
15 criticism of the fact that our numbers are lower than
16 actual to really be a collateral attack on the
17 Commission's test year decision, for the reasons that
18 I point out in my testimony. That concludes my
19 summary.

20 MR. PROCTOR: Mr. Falkenberg is available for
21 cross examination.

22 COMMISSIONER BOYER: Thank you. Let's begin
23 with Mr. Ginsberg. Have you cross examination for
24 this witness?

25 MR. GINSBERG: No.

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1 COMMISSIONER BOYER: We'll move now to the
2 Company.

3 MS. McDOWELL: Thank you, Mr. Chairman.

4 COMMISSIONER BOYER: Ms. McDowell, you'll be
5 conducting this?

6 MS. McDOWELL: Yes.

7 COMMISSIONER BOYER: Okay.

8 CROSS EXAMINATION

9 BY MS. McDOWELL:

10 Q. Good morning Mr. Falkenberg.

11 A. Good morning.

12 Q. Before I begin the prepared cross examination
13 I had I just wanted to respond with -- to your summary
14 with a question about it. Your summary was working
15 off of the Company's Alternative 1; is that correct?

16 A. That is the Company's rebuttal test year.

17 Q. But I just want to be correct. You were
18 working off Alternative 1, correct?

19 A. Yes. I was working off the Company's
20 rebuttal position that's built into its test year
21 revenue requirement.

22 Q. And if you in fact worked off Alternative 2
23 you would have a very different summary with respect
24 to whether the Company has incorporated adjustments
25 such as uneconomic generation, planned outages,

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1 Hermiston loss adjustment, biomass non-generation
2 agreement, et cetera; is that correct?

3 A. Well, that's certainly correct. But
4 Alternative 1 is what the Company is basing its rate
5 filing on.

6 Q. And Alternative 1 is actually lower than
7 Alternative 2, correct?

8 A. That's correct, because of Mr. Duvall's
9 various machinations.

10 Q. Now, your summary indicates that your planned
11 outage adjustment is a \$6.6 million adjustment; is
12 that correct?

13 A. It's 6.6 million less than what's built into
14 the test year. Which is about a \$4.4 million
15 adjustment that Mr. Dalton developed.

16 Q. So what's the total amount of your planned
17 outage adjustment?

18 A. I believe it's \$11 million.

19 Q. This is by far the largest remaining
20 adjustment you have in your testimony?

21 A. No. I think the largest remaining adjustment
22 is the uneconomic generation.

23 Q. So second largest?

24 A. Well, first or second, I guess. I'm not sure
25 whether -- which one is actually in first place.

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1 Q. Can you turn to your direct testimony at
2 page 54, please? And I'd like to direct your
3 attention to line 1331?

4 A. Yes, I see that.

5 Q. So there you describe your adjustment as
6 shifting the winter/spring coal plant outage forward
7 to better match historical and planned outages. Is
8 that a fair description of your adjustment?

9 A. Yes.

10 Q. Now, you generally shifted outages out of
11 January and February; is that correct?

12 A. I shifted all of the coal plant outages out
13 of January and February.

14 Q. And then shifted some from the fall back to
15 the spring or early summer; is that correct?

16 A. That's right. I believe it was mainly coal
17 strip, which is -- I don't believe there's ever been
18 an outage in the fall.

19 Q. Now, can you turn to your rebuttal testimony,
20 where you were responding to Mr. Dalton's schedule?
21 Can you turn to page 3, please, line 65?

22 A. Yes, I see that.

23 Q. Now, there you speak about outages in January
24 and February. And you state that you removed all coal
25 plant outages from January, while Mr. Dalton's

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1 schedule still has about 6 percent of coal outage
2 energy occurring in January. Do you see that?

3 A. Yes, I do.

4 Q. And then you go on to say that the Company
5 has never had a planned outage for a coal plant in
6 January since the PP&L/UP&L merger; do you see that?

7 A. Yes. I believe I did correct that in an
8 updated response that I provided the Company. There
9 was actually one outage in 1993, I believe, of one of
10 the units.

11 Q. So it's fair to say that you were
12 particularly concerned about outages in January and
13 February in both the Company's original schedule and
14 the DPU's schedule?

15 A. That's correct. For coal plants. Now, for
16 gas plants it doesn't particularly matter.

17 Q. I appreciate that clarification. I was
18 talking about the coal plants. So based on that
19 discussion, I take it you would not agree that any
20 schedule that included a coal outage in January or
21 February was appropriate?

22 A. Well, I think to say "any" schedule would be
23 a bit of a reach. There may be reasons why schedules
24 do depart from normalized expectations. However, it
25 is contrary to practice. And I guess to understand

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1 your question a little better I just want to make sure
2 whether you're talking about a normalized outage
3 schedule or talking about one that is used for actual
4 practice.

5 Q. I was talking about a normalized schedule.
6 For purposes of this case would you agree that the
7 Commission should reject any schedule that has an
8 outage -- any normalized schedule that has a coal
9 plant outage in January or February?

10 A. I would agree with that.

11 Q. Now, the Company has removed all planned
12 outages in its revised schedule, Alternative 2, in
13 January and February, correct?

14 A. That's correct. They did a lot of other
15 things as well that I don't agree with.

16 Q. So I want to hand you an exhibit.

17 MS. McDOWELL: I think we're on cross Exhibit
18 12 for the Company?

19 COMMISSIONER BOYER: Yes, let's mark this as
20 Rocky Mountain Cross Exhibit 12.

21 Q. (By Ms. McDowell) So Mr. Falkenberg, let me
22 represent to you that this exhibit -- which we put
23 together -- is an attempt to basically get your
24 plan -- your proposed planned outage schedule on a
25 piece of paper so we can have a discussion about it.

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1 And what we did was basically follow -- we've
2 got the data request here that indicates that there is
3 gonna be a map to your work paper. And we've copied
4 the relevant portions of the map. And then that leads
5 us to what we believe is a printout of the GRID input
6 file for your revised planned outage schedule.

7 A. Okay.

8 Q. Does that sound correct?

9 A. It sounds correct.

10 Q. Will you accept that this is your GRID input
11 file for your adjusted planned outage schedule in this
12 case?

13 A. I will accept that subject to check.

14 Q. Now, we talked a little bit about the fact
15 that there are some gas plants included in the outage
16 schedule but we are really focused on the coal plants,
17 correct?

18 A. That is correct.

19 Q. And those begin on page 2 of this printout;
20 is that correct?

21 A. Yes. Well -- yes.

22 Q. So that Carbon is the first, first unit, the
23 first one?

24 A. That is correct.

25 Q. So just so I understand the convention here,

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1 is that -- just going over to Carbon, you have
2 scheduled that for, is it April 12, 2008; is that
3 right?

4 A. That looks -- that sounds correct, yes.

5 Q. And then just going over further, the 14
6 there is the duration that you scheduled it for in
7 your normalized schedule?

8 A. Fourteen days.

9 Q. Okay.

10 MS. McDOWELL: I want to hand you a second
11 exhibit.

12 COMMISSIONER BOYER: We'll mark this as Rocky
13 Mountain Power Cross Exhibit 13.

14 MS. McDOWELL: Thank you.

15 Q. (By Ms. McDowell) Now Mr. Falkenberg, I'm
16 gonna represent to you that this is the exact same
17 document as Exhibit -- Cross Exhibit 12, except that
18 on page 3, to make it easier for folks to follow, I've
19 added a box around the Hayden 1 and Hayden 2 plants.
20 Do you see that?

21 A. Yes, I do.

22 Q. Now, those plants, Hayden 1, it looks like
23 that outage is scheduled on the 2nd of January, 2008,
24 in your revised schedule; is that correct?

25 A. Yeah, that's what it shows here. Though I am

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1 having a little bit of doubts about whether this is
2 actually the right input file.

3 Q. Well, if that's --

4 A. But I would say it's possible that I missed
5 one. I'd have to try to figure that out.

6 Q. Well, let me keep going here. Let's look at
7 the Hayden 2 plant. Now, that's January 13th, based
8 on your normalized schedule; isn't that correct?

9 A. That's right. And if I neglected to take
10 these and move them to a more favorable period then of
11 course it would change the results and probably make
12 my adjustment bigger. But I guess what I'm wondering
13 is that this file is named 2008 "Shiftplannout.csv,"
14 and I think maybe the correct file is 2008
15 Shiftplannout dot -- Feb20.csv.

16 Q. Well, I'm gonna represent to you,
17 Mr. Falkenberg, that we checked all of your planned
18 outage schedules and they all have the same schedule
19 in them. We've included the map here so that you
20 could verify that this is, in fact, the planned outage
21 schedule that you have submitted in this case.

22 A. Well, I will accept that. And as I say, if
23 that was an oversight on my part, then it would serve
24 to make my adjustment somewhat larger.

25 Q. Well, before we get to that let me just

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1 clarify that you have got 19 days of outages scheduled
2 in January, don't you?

3 A. That's correct.

4 Q. And wouldn't you agree that as presently
5 drafted, based on the answers you just gave me, that
6 because your schedule includes outages in January it
7 should be rejected by this Commission?

8 A. Well, I would recommend that the Commission
9 direct the Company to adopt the rest of my schedule
10 and fix that in the final filing, yeah.

11 Q. But it's not that simple, isn't it? You
12 can't just drop outages from a schedule, can you?

13 A. Well, you have to put them somewhere else.

14 Q. Well, you do, don't you? But those other
15 months are full of other outages, aren't they?

16 A. The other months do have outages, yes.

17 Q. And the results in this case could vary
18 significantly depending on where you put those other
19 19 days of outages in the year; isn't that correct?

20 A. I think that's, that's sort of the problem.
21 Because I think that the way Mr. Duvall rearranged
22 outages he moved them to time periods that were really
23 not any better than the, than the times he took them
24 out.

25 And that's really, you know, in order to sort

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1 of give a sanity check for all this that's why I did
2 this analysis. I did where I ran the four years of
3 actuals, and compared that, and found out it came out
4 pretty close to the result that I was recommending.

5 Q. Well, isn't it correct that you would have to
6 redraw an entirely new schedule to address the fact
7 that your current schedule contains plants -- plant
8 outages in January?

9 A. I don't know that you'd have to redraw a
10 completely new schedule. You could modify it by
11 moving that to a different period.

12 Q. Which would result in a new schedule,
13 correct?

14 A. For those two units.

15 Q. But would it impact other times of the year
16 because you can't just drop them; they have to be
17 moved to another month, correct?

18 A. You would move them to another month. And
19 you could see, for example, I mean for example if you
20 moved them to March it might not have much of an
21 impact on any of the other units that are scheduled.

22 Q. But isn't it too late to present an entirely
23 new schedule in this case, Mr. Falkenberg?

24 A. Well, you know, if the Commission decides
25 that they want to use the schedule that's provided,

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1 then I don't have a big problem with that. My
2 recommendation would be to make a correction for this.
3 But it's really the Commission's call as to what's too
4 late and what's not too late.

5 Q. When was the last time the Company litigated
6 power costs in front of the Utah Commission?

7 A. I believe it was the 2001 case.

8 Q. You were a witness in that case, correct?

9 A. I --

10 Q. You were a witness in that case?

11 A. Yes, I was.

12 Q. I'm sorry. I'm gonna hand you another cross
13 examination exhibit. And --

14 MS. McDOWELL: Before I do that I'd like to
15 offer -- where are we at? Let's see, Exhibit --

16 COMMISSIONER BOYER: Twelve and 13.

17 MS. McDOWELL: Twelve and 13, thank you,
18 Commissioner.

19 COMMISSIONER BOYER: Are there objections to
20 the admission of Rocky Mountain Cross Exhibits 12 and
21 13? Seeing none, they're admitted into evidence.

22 MS. McDOWELL: So this would be Cross
23 Exhibit 14.

24 (Pause.)

25 Q. (By Ms. McDowell) So Mr. Falkenberg, I've

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1 handed you what has been marked as Cross Exhibit 14,
2 which I'll represent to you is the Commission's order
3 in the 2001 case. And can you turn to page 13,
4 please?

5 A. Yes, I have it.

6 Q. And I want to direct your attention to the
7 discussion in the case that begins in the last line of
8 page 13 and then goes on, on, to page 14, about middle
9 of the page. Have you had a chance to review that?

10 A. Okay, starting the last line on page 13 to
11 how far?

12 Q. "USEA also recommends," down to the bullet
13 that says "Cholla Outage."

14 A. Yes, okay.

15 Q. So, now do you -- I'm sorry, are you still
16 reviewing that?

17 A. I'm still reading it. Okay.

18 Q. Now, do you recall in the 2001 case another
19 party, the USEA, made a similar planned outage
20 recommendation to yours? In that case it was referred
21 to as: "Shifting the schedule of maintenance so that
22 it has a less material impact on net power costs." Do
23 you see that?

24 A. Yes. I recall that.

25 Q. Now, on the top of page 14 it describes the

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1 adjustment where USEA was proposing to move outages
2 from June, where the Company had scheduled them, to
3 February and April, based in a similar argument to
4 yours on past maintenance schedules. It's on the top
5 paragraph, page 14.

6 A. I see that, yeah.

7 Q. Now, it's interesting, isn't it, that the
8 USEA makes a similar argument to yours but their
9 proposal was quite different in the 2001 case, wasn't
10 it? Well, let me just be a little more specific.
11 They were proposing to move outages from June to
12 February. You're proposing to move outages out of
13 February and into June; isn't that correct?

14 MR. PROCTOR: Excuse me, Mr. Chairman. I
15 would object to this statement. I believe that
16 Counsel is confusing -- certainly confusing me as to
17 whether or not she's discussing the Company -- the
18 Committee's position in this case versus the
19 seven-year-old USEA position in that earlier case. Or
20 whether she's talking about the Committee position
21 also at the same time as USEA was taking that case.
22 Her question --

23 MS. McDOWELL: I'm happy to rephrase.

24 COMMISSIONER BOYER: We'll let Ms. McDowell
25 clarify that question.

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1 Q. (By Ms. McDowell) Now, do you see that in
2 that case the USEA was objecting to the Company's
3 scheduled maintenance for the month of June?

4 A. Yes, I see that.

5 Q. And do you see that they were proposing to
6 move those outages to February and April?

7 A. I see that, yes.

8 Q. Now, in this case you're recommending that
9 the outages go the other direction. That they be
10 moved from February to June; is that correct?

11 A. That's right. And I'd have to say, I don't
12 know and I don't particularly recall very well what
13 USEA's rationale was for this. Certainly the Company
14 schedules some maintenance in June. The first part of
15 the month is typically a low-cost period.

16 The Company has not typically scheduled
17 maintenance for coal plants in February. And in this
18 particular passage I don't know if we can even tell
19 whether we're talking about gas units, or coal units,
20 or whatever.

21 But in any event, I think it's reasonable to
22 have some maintenance scheduled in June. June is a
23 month that has much more scheduled maintenance than a
24 lot of other months. February is a month that does
25 not for coal plants.

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1 So it doesn't make a lot of sense to move
2 maintenance from June to February. And I guess
3 perhaps that may be part of the reason why the
4 Commission didn't seem to accept this adjustment.

5 Q. Well, let's talk about that. The Commission
6 did reject the adjustment in the 2001 case, didn't
7 they?

8 A. That's right.

9 Q. And they did so in, it's the last sentence of
10 this passage that we're looking at. Where they state
11 that they were:

12 ..."reluctant to base so important a
13 decision on an inadequate foundation
14 because of its potential to influence
15 future performance of maintenance and
16 the resulting reliability of the system
17 in a manner adverse to ratepayers."

18 Do you see that?

19 A. I see that. And I, I would suggest that in
20 this case that that really shouldn't be a concern.
21 First of all, I think I've put a lot more effort into
22 developing a foundation and trying to demonstrate the
23 reasonableness of what I'm proposing.

24 Second of all --

25 Q. Are you referring --

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1 A. -- all that I'm really doing here is trying
2 to mimic the pattern that the Company is actually
3 using.

4 And to the extent that I'm doing that I don't
5 think the Commission needs to worry about whether
6 accepting a different schedule maintenance pattern is
7 going to have any adverse effect on the way that the
8 Company actually performs its maintenance.

9 Q. But Mr. Falkenberg, haven't we just
10 established that you're -- the schedule that is on
11 file in this case does not follow the Company's
12 historic maintenance schedule because your schedule
13 includes outages in January?

14 A. I think that I did agree, subject to check,
15 that there may be a mistake in that. Were that
16 corrected, it would probably increase the size of my
17 adjustment.

18 MS. McDOWELL: I'd offer Exhibit 14.

19 COMMISSIONER BOYER: Are there objections to
20 the admission of Rocky Mountain Power Cross
21 Exhibit 14?

22 MR. PROCTOR: No objection.

23 COMMISSIONER BOYER: Seeing none, it is
24 admitted into evidence.

25 Q. (By Ms. McDowell) Mr. Falkenberg, can you

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1 direct me to the sections of your testimony where you
2 address the weekday/weekend outage rate issue?

3 A. Well, that's in my surrebuttal testimony.
4 Though I sort of thought you were supposed to ask me
5 where you wanted to ask me questions about, but. I
6 think the surrebuttal starting around page 31 is the
7 place to start. Thirty-one to 34.

8 Q. So you discussed this issue for the first
9 time in your surrebuttal?

10 A. Just to add one point. I also have an
11 exhibit on that, which is CCS 4.4SR.

12 Yes, I address this for the first time in my
13 surrebuttal because it has never been an issue in a
14 prior case since the GRID model has been in use.

15 Q. Are you aware that your counsel represented
16 to the Commission on Monday that in fact you raise
17 this issue in your direct testimony?

18 A. I'm not aware of that. Now, the -- perhaps
19 there's a little bit of confusion about this issue
20 that I think perhaps Mr. Duvall is trying to create.
21 Which is he's somehow trying to link this to the
22 modeling of monthly outage rates.

23 It seems as though the Company couldn't find
24 any evidence to support the use of monthly outage
25 rates, which is something that Mr. Hayet and I both

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1 addressed in our direct testimony.

2 In our -- in his rebuttal testimony
3 Mr. Duvall says, Well heck, if we're not gonna have
4 monthly outage rates we shouldn't even have weekend or
5 weekday outage rates. And in so doing, he attempts to
6 raise power costs by several million dollars.

7 So then I had to come back in the surrebuttal
8 testimony and address that. So this part of it,
9 you're probably right, it was only addressed in this
10 portion of the testimony. But it came from an issue
11 that was addressed in the direct testimony.

12 Q. Fair enough. Can you turn to Page 74 of your
13 direct testimony? Line 1777, please.

14 A. 1777?

15 Q. Right.

16 A. Yes, okay.

17 Q. And I just wanted to direct your attention to
18 the clause where you say: "Unplanned outages are
19 quite random by nature." Do you see that?

20 A. Yes.

21 Q. Are you familiar with the Company's forced
22 outage rates?

23 A. Well, I've spent a lot of time looking at
24 spreadsheets that have them contained in them, so I
25 guess I would answer that yes.

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1 Q. And typically those forced outage rates are
2 reviewed on a four-year average; is that correct?

3 A. The Commission and -- the Commissions in most
4 states have been using a four-year rolling average.

5 Q. And when did you start reviewing the
6 Company's forced outages on that kind of four-year
7 average; when did that convention arise?

8 A. Well, it --

9 Q. Just as a general matter.

10 A. It was around before I got here, because in a
11 1997 case Mr. Hayet and I were hired by the Division
12 and the Committee to do an audit of the Company's
13 model. And it's my recollection that at that time
14 they were using a four-year average and had been using
15 it for some time.

16 Q. So I think you referred to an exhibit that
17 you prepared on this weekend/weekday split. Basically
18 the weekly outage issue. Is that 4.5SR; is that
19 correct?

20 A. I thought it was 4.4SR, but. It's this
21 graph.

22 Q. I might have gotten the number wrong. Let's
23 see. Doesn't -- I -- it's --

24 A. I might have gotten it wrong.

25 Q. It's 4.4SR?

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1 A. Yes. It's this chart right here.

2 Q. Okay. Now, there you are modeling forced
3 outages on a weekly basis; is that correct?

4 A. What this shows is the four-year rolling
5 average of outage rates computed for the weekday and
6 the weekend using the methodology that the Company
7 uses in its calculation of the annual outage rates.
8 Except that I believe I took the ramping out of it
9 just to make it -- because the ramping was the same in
10 weekend and weekdays anyway.

11 Q. So is this a single year or does this reflect
12 four years of outages?

13 A. This is the four-year period ending June 30,
14 2007. Which is the four-year period used by the
15 Company in this case to compute the outage rates.

16 Q. And I notice that you only took the graph up
17 to 20 percent. Was there a reason for that? As
18 opposed to a hundred percent?

19 A. I don't think there were any units that had a
20 hundred percent outages on the four-year period.
21 Particularly if you remove the ramping.

22 Q. So basically this models -- takes the data in
23 GRID for forced outages and on a plant-by-plant basis
24 models those outages on a weekly basis showing which
25 ones are on the weekend and which ones are on the

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1 weekday; is that correct?

2 A. Shows the percentage outage rate on weekends
3 and weekdays using the Company's method. And just to
4 clarify something here, in my original direct
5 testimony I used a weekend/weekday split and I got rid
6 of the monthly outages. I averaged the 12 monthly
7 numbers.

8 And in looking at the data I decided it was
9 better than taking the average of 12 months to
10 actually compute what the outage rate is using lost
11 energy on weekdays and weekends. And I did that. And
12 in so doing, in my rebuttal case I raised the power
13 cost allowance for the Company by about \$700,000.

14 So in effect I did this adjustment, this
15 calculation, in a more realistic way. And I provided
16 the Company with the benefit of \$700,000,
17 approximately, more net power cost. Just because I
18 thought it was a better way to do it.

19 Q. That's in your surrebuttal testimony?

20 A. That's right. And we had a brief discussion
21 about that actually prior to filing my surrebuttal on
22 May 16th with Mr. Duvall and his manager of net power
23 costs, and the question came up as to how I did this.

24 Q. I'm gonna hand you what is going to be
25 cross -- RMP's Cross Exhibit 15.

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1 MR. PROCTOR: Ms. McDowell, if I may --
2 Mr. Chairman, if I may ask a question just for
3 clarification?

4 COMMISSIONER BOYER: Please do.

5 MR. PROCTOR: Is this one of the six
6 documents that the Company sought to introduce as
7 sur-surrebuttal but were rejected?

8 MS. McDOWELL: Yes, it is.

9 MR. PROCTOR: Mr. Chairman, if I could ask
10 that the Commission, at least for now, not review that
11 document, since obviously there's going to some
12 discussion as to whether or not it's admissible?

13 COMMISSIONER BOYER: Well, why don't we do
14 that up front. Let's see what it is, and who prepared
15 it, and why, and when.

16 MS. McDOWELL: Okay.

17 Q. (By Ms. McDowell) So Mr. Falkenberg, I've
18 just handed you what's been marked as RMP's Cross
19 Exhibit 15. And let me represent to you that it
20 models the same forced outage data we were just
21 talking about, the weekday/weekend forced outage data
22 by plant, but it also breaks it down by month. Would
23 you accept that representation, subject to check?

24 MR. PROCTOR: At this point I think it would
25 be appropriate to interpose an objection. In

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1 particular, Mr. Falkenberg has just testified on cross
2 examination, in connection with Exhibit CCS 4.4SR,
3 weekday/weekend EFOR, the four-year rolling average
4 ending in June.

5 That was in his direct testimony. And --
6 pardon me, in his surrebuttal testimony. But it is a
7 matter that had been raised by Mr. Duvall in his
8 rebuttal testimony. He had described the fact that if
9 the monthly outage method was to be removed then so
10 too should the weekday/weekend.

11 Yet Mr. Duvall, having access to these
12 documents -- bear in mind, this is a five-year rolling
13 average that ends in December of 2007. So it also is
14 different than their original filing, which was a
15 four-year rolling average June '07.

16 He did not include any of this information to
17 address that particular issue. He could have, he had
18 it available to him, but did not. That was in fact
19 one of the reasons why we had objected to its use on
20 sur-surrebuttal, because it became a surprise exhibit.
21 Which was not provided for in any way by this
22 Commission's original scheduling order, which the
23 Commission found we need to comply with.

24 So to try to do it now by suggesting that --
25 even though Mr. Duvall had the opportunity and the

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1 information available -- it is somehow cross
2 examination of this witness, I think is not
3 appropriate.

4 It should be rejected. And in fact I'll
5 reference the document itself should not -- should be
6 stricken. It exists as the proposed exhibit. And it
7 has a face page. Which was an acceptable way to deal
8 with it from the record standpoint.

9 But this Commission ought not to simply
10 reverse, for these reasons which are not valid, its
11 original decision to exclude this evidence.

12 COMMISSIONER BOYER: Ms. McDowell?

13 MS. MCDOWELL: Well, it's a very different
14 scenario we're in right now. We're in cross
15 examination. I've just established both that
16 Mr. Falkenberg is familiar with the Company's forced
17 outage rates for this time period.

18 I've established what his chart demonstrates.
19 And I've established that this is the same chart,
20 formatted slightly differently to include one more
21 piece of information: A monthly look. So I've
22 established all of that foundation.

23 I think it's a fair thing to ask cross
24 examination on, especially given the fact that we now
25 know -- unlike we did on Monday -- that Mr. Falkenberg

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1 never raised these issues in his direct testimony.
2 The first time the Company saw this chart was in the
3 surrebuttal testimony.

4 And all the Company has done is basically
5 take this chart, put it in a slightly different
6 format, and seek to ask Mr. Falkenberg some cross
7 examination questions on it. We think it's a fair
8 cross examination exhibit.

9 MR. PROCTOR: Mr. Chairman, I --
10 Mr. Falkenberg testified that indeed the issue had
11 been raised in his direct testimony. I suppose we
12 could go back to the record of the argument on this
13 matter Monday morning and determine exactly what were
14 the representations made.

15 But Mr. Falkenberg has confirmed that indeed
16 it was an issue that was raised in his direct. And
17 that doesn't change at all, however, the fundamentally
18 sound reasons why this Commission said no, this will
19 not come into evidence.

20 And simply asking him one question about it,
21 Is this the same thing as your prior -- which it is
22 not, and they -- it's different time periods, it has a
23 different end point -- is -- doesn't change any of
24 those reasons.

25 So we would object to it. It ought not to be

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1 allowed in this -- this particular line of cross
2 examination should be -- should end.

3 MS. McDOWELL: I'm not sure if it assists in
4 the decision making, I have one question to ask about
5 this exhibit.

6 COMMISSIONER BOYER: Okay, why don't you ask
7 that, and then I may have a question myself.

8 Q. (By Ms. McDowell) Mr. Falkenberg, can you
9 review this exhibit and point to any discernible
10 pattern that exists between week -- weekday and
11 weekend outages that are modeled here on these pages
12 for the plants?

13 MR. PROCTOR: Well, that's a substantive
14 question. Are you permitting the cross examination
15 with respect to the exhibit, Mr. Chairman, or?

16 COMMISSIONER BOYER: Well, what I actually
17 intended to do was to take a five minute recess, let
18 Mr. Falkenberg look -- have you had an opportunity to
19 review this? Inasmuch as it was proffered earlier and
20 not admitted into evidence?

21 THE WITNESS: I've seen it.

22 COMMISSIONER BOYER: You have seen it?

23 Tell me where you're going with this exhibit.
24 What is the purpose of this exhibit?

25 MS. McDOWELL: It's basically, he has

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1 proposed an exhibit that attempts to show a distinct
2 difference in pattern between weekly outages --
3 between a weekday and weekend split.

4 We think when the data is more fairly modeled
5 by month there is no discernible pattern between
6 weekly -- in weekly outages. That they're as random
7 as the monthly outages that Mr. Falkenberg has
8 objected to.

9 So it's really just a different look. It's a
10 really a visual look. He's got a visual. We think a
11 more fair way of demonstrating that data is through
12 this chart because it's a more comprehensive chart.

13 (Pause.)

14 COMMISSIONER BOYER: Well, inasmuch as
15 Mr. Falkenberg has addressed the weekday/weekend
16 outages, I think this is appropriate cross
17 examination. And we'll allow it for that purpose.
18 And we'll accord it appropriate weight during our
19 deliberations.

20 MS. McDOWELL: Shall I repeat my question?

21 COMMISSIONER BOYER: I think you should.
22 Enough time has elapsed that Mr. Falkenberg -- he may
23 or may not remember what the question is, but why
24 don't you start over.

25 Q. (By Ms. McDowell) Mr. Falkenberg, can you

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1 review Exhibit 15 and point out any discernible
2 pattern between weekday and weekend outages that it
3 reflects?

4 A. The problem with this exhibit is that the
5 difference between the weekend and weekday outages
6 amounts to around one percent. Which when you look at
7 it month after month, year after year, you do see that
8 there is a tendency to have more outages on the
9 weekends than on the weekdays.

10 And the reason is that the Company can defer
11 certain kinds of outages to the weekend, and have it
12 on the weekend as opposed to the weekday. So what I
13 have done is I've looked at the average over the
14 four-year period.

15 I also looked during the course of this at
16 the, looking at the average of each of the 12 months,
17 okay? So I looked at all four years worth of
18 January's, all four years worth of February's, and so
19 on. And you could see that there was definitely a
20 discernible pattern that most units had a higher
21 outage rate on the weekend than the weekday.

22 Now, there are some problems I believe with
23 this analysis that I think render its usefulness
24 rather limited. First of all, the Company is not
25 presenting the actual outages that occurred during

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1 these time periods. They're only presenting a monthly
2 average.

3 Second of all, I think that the Company is
4 calculating the weekend outages in a way that's
5 incorrect, at least as it's applied to GRID, because
6 it's calculating weekly -- weekend outages on the
7 basis of a 48-hour period, whereas GRID is actually
8 using a 56-hour period.

9 I think what this exhibit really illustrates
10 is that, given the random nature of outages, it
11 doesn't make sense to do a monthly outage type of
12 calculation. This is yet one more piece of data.

13 Now, to discern the difference between the
14 weekend and weekday rate is pretty hard when that
15 difference may be only a percent or two and we've got
16 charts that have pretty big gaps between the lines
17 here.

18 So if I were going to actually try to analyze
19 this data I think what I would want to do is some kind
20 of statistical analysis to see what the difference was
21 on a unit-by-unit basis, and see how it differs.

22 Q. So --

23 A. Remember, in the process of normalization
24 what we're trying to do is we're trying to take data
25 that looks like this and make some sense out of it.

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1 We're trying to simplify it down from a bunch
2 of lines on a piece of paper that don't mean much of
3 anything to something that does mean something. Such
4 as that the Jim Bridger unit has a 14 percent outage
5 rate on weekdays and a 15 percent outage rate on
6 weekends.

7 I show in my testimony that there's about a
8 9 -- over 90 percent of the plants, the generators,
9 modeled in GRID have a higher outage rate on the
10 weekend than they do on the weekday. And so I think
11 that's a sufficient showing.

12 Q. But --

13 A. And I guess just one other thing I'd point
14 out, I notice this doesn't show all the units either.

15 Q. But you've just indicated that that higher
16 rate is maybe one percent?

17 A. It makes a difference. That's why Mr. Duvall
18 wants to eliminate it, because of his view that the
19 Company has been consistently shortchanged by
20 regulation in Utah.

21 Q. Now, isn't it true that when this chart shows
22 is just what your direct testimony said, which is that
23 forced outages are by definition random?

24 A. That's correct, forced outages are. But
25 we're dealing with a different kind of outage. It's

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1 called a maintenance outage, which is a deferrable
2 outage. It's one that North American Electric
3 Reliability Council defines as being an outage that
4 can be delayed till after the next weekend, but not
5 longer than until the next planned outage.

6 So for those kind of outages where you know
7 something is going wrong, you don't have to stop
8 everything right away and fix it, but you have some
9 flexibility. And just to give an example that I think
10 will make some sense.

11 If I drive my car and never change the tires,
12 I could have a flat tire just about anytime. But if I
13 was to go and recognize that my tread is wearing thin,
14 I'd probably change the tire. And chances are, I'll
15 do it on a weekend, when I don't have to work.

16 Q. So Mr. Falkenberg, those maintenance outages,
17 those are only a small portion of the forced outages
18 that we're talking about here, aren't they?

19 A. That's right. They're about 15 percent of
20 lost energy, as I recall.

21 MS. McDOWELL: So I'd offer Exhibit 15.

22 COMMISSIONER BOYER: Okay. We've heard
23 Mr. Proctor's objection. Do you want to restate that,
24 or?

25 MR. PROCTOR: Cross examination has been

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1 permitted on this particular set of data. It's not
2 necessary to enter it into the evidence as an exhibit.
3 Particularly on the basis of the, the cross
4 examination which established that it is not accurate
5 to reflect his testimony and his, and his opinions.

6 Under the circumstances, it should not be
7 entered as an exhibit. You permitted cross
8 examination on it, and that's where it should stop.

9 COMMISSIONER BOYER: Anyone else wish to
10 weigh in on this?

11 Ms. McDowell, any last thoughts on it?

12 MS. McDOWELL: Well, I guess I assume that
13 your ruling means that the exhibit will come in. I
14 think the record would be confused if it did not come
15 in. And I think that the responses demonstrated that
16 he did have the foundation to answer my questions on
17 the exhibit.

18 COMMISSIONER BOYER: Yeah. We're going to
19 admit it into evidence. Thank you.

20 Q. (By Ms. McDowell) Mr. Falkenberg, can you
21 turn to page 4 of your surrebuttal testimony, please?

22 A. I have it.

23 Q. I just wanted to direct your attention to
24 line 97, the sentence beginning with the word
25 "Second," states:

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1 "The suggestion that unaudited and
2 unadjusted actual costs provides a
3 reasonable benchmark for rate making
4 purposes is highly debatable."

5 Do you see that testimony?

6 A. Yes.

7 Q. And then can you turn to page 12 of your
8 surrebuttal testimony?

9 A. I have it.

10 Q. And there the sentence beginning on line 315,
11 going on to -- through line 319. Just to summarize,
12 your testimony is that the Company's actual net power
13 cost benchmark should be ignored as an attempted
14 distraction. Is that correct?

15 A. I think in this case it certainly is an
16 attempted distraction.

17 Q. So what, what if the most -- well, let me ask
18 it this way. What if the Company's requested power
19 costs were significantly above the most recent
20 actuals; would your position be the same? That, that
21 the information was irrelevant and a distraction?

22 A. I, you know, I don't know what I'd do in a
23 hypothetical situation like that. It seems to me
24 that -- the problem is you'd have to make some
25 adjustments to actual in order to make a useful

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1 comparison.

2 Q. Let me hand you what I'm gonna mark I think
3 as -- the next in sequence is Cross Examination
4 Exhibit No. 16.

5 (Pause.)

6 Q. (By Ms. McDowell) So Mr. Falkenberg, I've
7 handed you what's been logged as Exhibit -- Cross
8 Exhibit RMP 16. I'll represent to you that it is your
9 testimony from the 2001 -- your direct testimony from
10 the 2001 Utah Rate Case for the Company in which you
11 indicated you participated.

12 Do you agree that this is your testimony from
13 that proceeding?

14 A. It looks like it.

15 Q. Now, I want to direct your attention to three
16 passages in this testimony.

17 A. Okay.

18 Q. First of all can you turn your attention to
19 page 6, lines 4 through 5? And there the sentence
20 beginning on line 4 states that:

21 "The normalized net power costs used
22 by the Company substantially exceed
23 actual test year levels."

24 Do you see that?

25 A. I do.

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1 Q. And then can you turn to page 9 of the
2 Exhibit 16, please?

3 A. I have it.

4 Q. And then can you look at the passage lines 18
5 through 21? And there you testify that:

6 "The test year as normalized by the
7 Company is certainly not reflective of
8 conditions as they actually occurred."

9 And "actually" is emphasized. "In fact,
10 the projected net power costs (in excess
11 of 812 million on a total Company basis)
12 exceed actual results for the test year
13 (602 million) by 210 million or 35
14 percent."

15 Do you see that?

16 A. I see that.

17 Q. And then can you turn to page 11 of that
18 testimony? And there in the question beginning on
19 line 1 of that testimony the question says:

20 "How do the Company's normalized
21 test-year net power costs compare to
22 recent historical data?"

23 And the answer that you provide is:

24 "Based on actual book results, in
25 1999 the Company's total net power costs

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1 were only 431.7 million. That is close
2 to the amount" -- or excuse me, "That is
3 an amount that is close to the 1998 test
4 year normalized net power costs used in
5 Docket 99-035-10. For the unadjusted
6 test year, (12 months ended
7 September 30, 2000) actual total net
8 power costs were 602 million."

9 Do you see that?

10 A. I see that.

11 Q. So isn't it true, Mr. Falkenberg, that the
12 last time you testified in a Utah general rate case
13 hearing you relied on actual cost benchmarks to argue
14 against the Company's proposed rate increase?

15 A. Well, you certainly pointed that out
16 accurately. I think that the fundamental difference
17 in this case is that Mr. Duvall is saying that even
18 though we have agreed there are problems in the data
19 and that there are problems in the model, because of
20 our comparison to actual we're just going to turn a
21 blind eye to those.

22 And that's not what I was suggesting in this
23 case.

24 Q. So can you turn back to your surrebuttal
25 testimony? It's the same passage we were looking at,

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1 page 12, line 314 -- or excuse me, line -- begins on
2 line -- the sentence beginning on line 315?

3 A. Yes.

4 Q. And there you say that the Commission -- this
5 is the passage of that sentence that begins at the
6 bottom of line -- of page 12 and moves on to the top
7 of page 13. There you say the Commission should
8 ignore these actual cost benchmarks:

9 "Just as it did in the 2001
10 proceeding when Mr. Widmer presented a
11 similar comparison to actual results in
12 the rebuttal stage of the case."

13 Do you see that testimony?

14 A. Yes, I see it.

15 Q. Now, do you have Exhibit 14 still with you?
16 It's the Commission order in the '01 case.

17 A. It's here somewhere.

18 Q. I have the same problem.

19 A. Okay, I have it.

20 Q. Can you turn to page 31 to 32 of that
21 decision?

22 A. I have it.

23 Q. And then I'd like to direct your attention to
24 the passage that begins page 31, and it says: "We
25 summarize the effects." Basically the discussion of

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1 contract imputation begins at the end of the first
2 full paragraph, where it says: "Embedded cost
3 adjustment," and then the new part of the discussion
4 starts where: "We summarize the effects."

5 A. That's right.

6 Q. Do you see that?

7 A. I see it. And, and the point here is that
8 Mr. Widmer's first three/four months of 2 -- of what
9 at that time I guess was 2001 was not reflected on
10 this table. That was my point.

11 Q. Well, let me just be clear here --

12 A. The first four months 2001.

13 Q. So the Commission ended its 2001 rate order
14 with a comparison of actual power cost benchmarks to
15 power costs and rates for the preceding years,
16 correct?

17 A. That's right, it did. But it did avoid the
18 temptation to look at the most recent four months of
19 data that was presented by the Company. And the
20 reason that those figures were not really comparable
21 was that the Hunter outage took place and the Company
22 made no adjustment for that, among other things.

23 Q. But it wasn't --

24 A. So the Commission didn't seem to rely on
25 that, from what I could see in this table.

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1 Q. But it wasn't accurate to say that the
2 Commission ignored actual power cost benchmarks in its
3 2001 order, is it?

4 A. What I said was that they didn't buy into
5 Mr. Widmer's attempted distraction, which is what it
6 was. And they didn't reflect that in this table.

7 Q. Now, isn't this table on page 31 similar to
8 the information that Mr. Duvall has submitted in this
9 case with respect to historical actual power cost
10 information?

11 A. I haven't compared them side by side.

12 Q. Can you turn to page 29 of your surrebuttal
13 testimony?

14 A. Okay.

15 Q. I want to ask you about your -- the sentence
16 beginning on line 722.

17 A. How does this approach compare to industry
18 standard techniques?

19 Q. Correct.

20 A. I have it.

21 Q. Now, you claim that the minimum loading heat
22 rate adjustment that you propose is industry standard,
23 correct?

24 A. That's right.

25 Q. And in this Q&A the only utility that you

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1 cite as an example of a utility actually doing
2 something like this is Portland General Electric; is
3 that correct?

4 A. That's correct.

5 Q. And you refer to the -- in that Q&A at
6 line 729 you refer to Exhibit CCS 4.3SR, where you
7 have provided some data request responses from PGE's
8 current rate case proceeding. Do you see that?

9 A. Yes.

10 Q. So are you working on the PGE rate case?

11 A. Yes.

12 Q. And did you use the discovery process in that
13 case to develop evidence for this case?

14 A. I was very curious about this, because when I
15 started looking at their model I discovered that there
16 were certain features in it that seemed to me to
17 support the proposition that I was holding with
18 respect to this issue, so I did discovery on it. And
19 I also had a few questions about the way they
20 implemented it, so I did apply that.

21 Q. So PGE is the only utility you cited that is
22 using something similar to the proposal that you've
23 suggested here. And is your -- I mean, is your
24 position that PGE single handedly sets the industry
25 standard?

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1 A. No, but I think I pointed out also that the
2 Company is also applying this same technique in the
3 case of fractionally-owned units. And there's really
4 no reason to treat a fractionally-owned unit any
5 differently than to treat a unit that is only
6 available a fraction of the time because of outages.

7 And it's also based on Mr. Hayet's experience
8 and my experience working with various type models.
9 And I pointed out that I developed a model some 25,
10 30 years ago now that utilized this same technique.
11 And it was used by a number of utilities.

12 Q. But you have never proposed this approach in
13 any company proceeding until earlier this year,
14 correct?

15 A. I proposed it in the Wyoming case earlier
16 this year. And as I pointed out in my testimony at
17 some point, that Mr. Hayet and I had discussed this
18 issue from time to time. And there were some reasons
19 why we didn't think it was particularly important in
20 the past.

21 One was that we didn't expect it was going to
22 be this substantial. And with all the units that the
23 Company has that are running on minimum loading so
24 much of the time, it surprised us a little that it was
25 as, you know, that it made as big a difference as it

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1 did.

2 Q. So one question on your testimony about the
3 Company using this approach for its joint ownership
4 plans. The Company never goes below its minimum
5 loading levels in that situation, does it?

6 A. Well, it has to. I mean, for example the
7 Company owns 10 percent of the Cholla unit. Or not
8 the Cholla, the coal strip unit. The minimum loading
9 of the coal strip and their ownership share is only
10 about 76 1/2 megawatts a piece.

11 That's less than the minimum capacity of the
12 coal strip plant. The coal strip plant minimum that's
13 modeled in the GRID is much, much lower than that. So
14 the Company does go below the minimum loading in the
15 way it's modeled that unit.

16 Q. So let me hand you an exhibit. Cross
17 Exhibit 15, I think is what we're on.

18 COMMISSIONER BOYER: Actually we're on -- we
19 have marked one Exhibit 16.

20 MS. McDOWELL: I'm getting the whispers that
21 we're on 17. Is that --

22 COMMISSIONER BOYER: The next one will be 17
23 in sequence, yes.

24 MS. McDOWELL: Thank you.

25 (Pause.)

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1 Q. (By Ms. McDowell) So Mr. Falkenberg,
2 Exhibit -- Cross Exhibit 17 I'll represent to you is
3 the prefiled power cost testimony from Portland
4 General Electric in the current rate case. Do you
5 recognize that testimony?

6 A. Yes, I do.

7 Q. Can you turn to page 13 of that testimony?

8 A. Yes, I have it.

9 Q. Now, I want to ask you a moment about your
10 wind integration charge. Is it accurate that your
11 current position in your surrebuttal testimony is that
12 the Company's wind integration charge should be
13 22 cents a megawatt hour? It's page 54, if you want
14 to run through your testimony.

15 A. Yeah. I'd actually have to look at my work
16 papers to verify that number.

17 Q. The number that, the number that's at
18 page 54, line 1393 of your testimony.

19 A. Page --

20 Q. Of your surrebuttal testimony?

21 A. Page 54?

22 Q. Page 54, line 1393.

23 A. Yes, I see that.

24 Q. So you're at 22 cents a megawatt hour for
25 wind integration charges --

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1 A. Yes.

2 Q. -- is that correct?

3 A. Yes.

4 Q. And the Company's proposal was to charge
5 \$1.14 a megawatt hour; is that correct?

6 A. No. The Company proposes to charge \$1.14 per
7 megawatt hour plus and including 5 percent of wind
8 generation as requiring -- provide reserves equal to
9 5 percent of wind generation on an hourly basis.

10 Q. And the comparable charge that you have is
11 the 22 cents; is that right?

12 A. No. The comparable charge I have is the
13 22 cents plus the 5 percent.

14 Q. So the position is the same on the reserve
15 issue, it's just this intra-hour issue of 22 cents
16 versus \$1.12; that's where your adjustment is focused?

17 A. I'm sorry, did you say --

18 Q. \$1.14.

19 A. No, you said in -- are you talk --

20 Q. Intra-hour.

21 A. Intra-hour?

22 Q. Uh-huh (affirmative.)

23 A. That's the problem. The 22 cents isn't
24 really -- the Company's entire wind integration
25 analysis is not an intra-hour analysis.

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1 Q. So my, my question is just trying to
2 understand where you are at versus where the Company
3 is at. You are at 22 cents?

4 A. I'm at 22 cents plus 5 percent.

5 Q. And the Company is at \$1.14 plus that
6 5 percent?

7 A. Plus 5 percent, yes.

8 Q. Now, can you look at line 17 through 18 of
9 this testimony I've handed to you at page 13? And do
10 you see that PGE is proposing a charge of \$4.39 per
11 megawatt hour for its wind integration charge?

12 A. I see that. And there are some important
13 differences. One important difference is that the PGE
14 model -- which I've spent a lot of time looking at
15 over the years -- I don't believe it can directly
16 factor in the 5 percent that we're talking about. The
17 wind reserve requirement that is built into GRID. So
18 you can't really compare the two.

19 Q. Well, isn't another difference that they have
20 just a few wind projects and the Company has many,
21 many?

22 A. That's a difference. And to be honest, I
23 have to question the \$4.39. But at this point I
24 haven't been able to come up with an alternative.

25 Q. Well, doesn't that figure suggest that the

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1 Company's wind integration charge is significantly
2 understated?

3 A. Well, it might suggest that their charge is
4 significantly overstated.

5 Q. And in any event, yours at 22 cents is far
6 lower than PGE's at \$4.39, isn't it?

7 A. That's correct.

8 Q. And if the Commission is going to look at PGE
9 as a model in a heat rate issue shouldn't they also
10 consider PGE's position on the wind integration issue?

11 A. Well, I think it's a difference between an
12 input to a model and the way that a model works.

13 MR. PROCTOR: Excuse me. I'm sorry,
14 Mr. Falkenberg.

15 I'm gonna object to the question. I believe
16 she asked what the Oregon Commission ought to be
17 doing, and I don't know that that's relevant or
18 something necessarily that this witness can address.

19 MS. McDOWELL: I said -- I thought I said
20 "the Commission."

21 MR. PROCTOR: Well, we're talking about two
22 commission proceedings right now, and --

23 MS. McDOWELL: When I say "the Commission" in
24 this room I mean the Utah Commission.

25 COMMISSIONER BOYER: Does that clarify that

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1 for you? That's the way I understood the question.

2 THE WITNESS: Well, I think the difference is
3 at least I have analyzed the way in which the Portland
4 General Electric model works. I see how it works. I
5 understand it. It does what I believe it should do
6 with respect to that particular issue.

7 Now, there are many, many other issues.
8 Those companies have the -- Portland General and
9 PacifiCorp, for example, both own a portion of the
10 coal strip plant, but they model different outage
11 rates. They do a lot of things differently.

12 So I'm not sure, when it comes to an input
13 item, that you can compare one company with the next.
14 It would certainly be interesting to know why the PGE
15 number is so much different. And it would be
16 interesting to know how much of it is related to the 5
17 percent that is not captured in their model.

18 Q. (By Ms. McDowell) Do you think it's -- the
19 PGE charge is influenced by the BPA charge of, I think
20 the quote I heard was \$2.82 a megawatt hour based on a
21 33 percent capacity factor?

22 A. Well, I believe that PGE does have to pay the
23 BPA pass-through charge that has been negotiated in a
24 settlement recently. I believe that it will affect
25 all of their wind generators. I don't believe it

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1 necessarily affects all of PacifiCorp's wind
2 generators.

3 Q. Certainly affects some, doesn't it?

4 A. I believe it does affect some, yes.

5 Q. So Mr. Falkenberg, can you turn to page 14 in
6 your testimony?

7 A. Which version?

8 Q. I'm sorry, your direct testimony.

9 A. Okay. Okay.

10 Q. So page 14, line 391.

11 A. Okay. Yes.

12 Q. And there you state:

13 "Indeed, I expect the Company makes
14 every effort to achieve the least cost
15 operation of the power system, subject
16 to applicable constraints."

17 Do you see that?

18 A. Yes.

19 Q. If that is the case Mr. Falkenberg, if the
20 Company is making every effort to achieve the least
21 cost operation of the power system subject to
22 applicable constraints, don't you think the Company's
23 recovery for its net power costs in this case should
24 come closer to matching the Company's actual net power
25 costs?

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1 A. You know, the problem with matching actual
2 net power cost is that, you know, just as one example,
3 the first three months of this year there were
4 substantially higher power costs than I believe the
5 Company predicted or than we predicted.

6 And the reason was that there was
7 approximately 600,000 additional megawatt hours of
8 load. Now, talking to the people on the Committee, I
9 understand there was a pretty cold winter here, so
10 that may have a lot to do with it.

11 But you really can't compare, you know, these
12 apples and oranges types of things. I mean, another
13 example has to do with Lake Side. The unit was
14 several months late. That caused the actual power
15 cost in the 12-month period ended March 31, 2008, to
16 be increased by at least \$30 million.

17 And I've seen estimates that the Company
18 prepared on a confidential basis in other cases that
19 were more than that. So it seems to me that if you're
20 going to start talking about comparing to actual you
21 have got a lot of adjustments to make.

22 And those adjustments, for the most part, are
23 bigger than any of the adjustments that I've been
24 talking about in this case.

25 MS. McDOWELL: That's all I have. Thank you.

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1 COMMISSIONER BOYER: Thank you, Ms. McDowell.
2 We're looking for a natural break to take a recess for
3 lunch. This may be it.

4 MR. SANDACK: I have no questions, your
5 Honor.

6 COMMISSIONER BOYER: Oh, okay. Well, others
7 may though. Mr. Reeder is nodding in the affirmative.
8 The Commissioners may have questions. Let's take an
9 hour and-a-half recess for lunch then.

10 (A luncheon recess was taken from
11 12:00 to 1:31 p.m.)

12 COMMISSIONER BOYER: As we departed for lunch
13 we had two outstanding exhibits here. Ms. McDowell I
14 think is gonna move their admission.

15 MS. McDOWELL: I'd offer RMP Cross 16 and 17.

16 COMMISSIONER BOYER: Are there objections to
17 the admissions of these two pieces of evidence?
18 Seeing none, they're admitted into evidence.

19 MS. McDOWELL: Thank you.

20 COMMISSIONER BOYER: And now, you had
21 completed your cross examination. Mr. Sandack had
22 indicated he had no questions. Mr. Reeder did have
23 questions. And Mr. Dodge is not here at the moment.

24 MR. REEDER: (Speaking, but microphone is not
25 on.)

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1 THE COURT REPORTER: I can't hear you.

2 MR. REEDER: Sorry. I would be willing to go
3 out of order and give him a chance to gather his
4 notes.

5 COMMISSIONER BOYER: All right. Let's, let's
6 do proceed with Mr. Reeder at this point.

7 MR. REEDER: Thank you.

8 CROSS EXAMINATION

9 BY MR. REEDER:

10 Q. Good afternoon, Mr. Falkenberg.

11 A. Good afternoon.

12 Q. Directing your attention to page 5 of your
13 testimony.

14 A. Direct?

15 Q. It looks like surrebuttal, sir.

16 A. Okay. I've got it.

17 Q. There you open the issue that if the Company
18 were to increase sales forecasts in the GRID model it
19 would require a reallocation under the jurisdictional
20 allocation factors. Do you see that testimony?

21 A. Yes.

22 Q. Would it be true also that if sales were
23 declined it would require a reevaluation of the
24 inter-jurisdictional allocation factors?

25 A. Anytime the kilowatt hours change then all

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1 the billing units, the allocation factors, all sorts
2 of things change.

3 Q. Directing your attention to page 8 of your
4 surrebuttal testimony.

5 A. Yes.

6 Q. There you present Surrebuttal Table 2?

7 A. Yes.

8 Q. And there you evaluate the numbers in the
9 actual cost of power versus the GRID cost of power, as
10 presented by the Company?

11 A. Well, not exactly. This shows the changes
12 that I would need to make to the GRID model in order
13 to take it from being a test year 2008 to being a
14 March 31, 2008, actual.

15 Q. Let's focus on the time -- on the line
16 entitled: "Wind generation." My favorite topic for
17 the season.

18 A. Yes.

19 Q. Is the wind generation shortfall there
20 because the wind didn't blow, or the plants weren't
21 completed?

22 A. The shortfall here really is because the
23 plants weren't completed. Because during the
24 12 months ended March 31, 2008, you didn't have all of
25 the wind generators on line that you do have now. In

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1 the test year.

2 Q. Would you agree with the proposition that if
3 we were to populate the net power cost forecasting
4 model with wind we should populate it at the
5 performance levels used to evaluate the economic
6 viability of those projects?

7 A. Well, that's kind of a philosophical
8 question, I think. I will say that for a fair number
9 of the wind generators they actually used the profiles
10 that were developed in the evaluation process. Those
11 are primarily the newer generators that there is no
12 history for.

13 For the ones for which there is a history,
14 the Company uses the history. And that's not
15 something that I challenged in this case.

16 Q. Isn't that the best way to assure
17 accountability for these new projects, is to use their
18 economic feasibility analysis as the basis for
19 forecasting the cost?

20 A. Well, there's some error to that. But, you
21 know, that's kind of an area that's I guess outside of
22 what I'm really testifying to here.

23 Q. Okay. Would you agree that our exercise
24 today is to try to determine an estimate of what power
25 costs would be for a future period?

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1 A. Well, I believe what we're trying to do is
2 determine what a good number for 12/31/2008 test year
3 is.

4 Q. That really involves an estimate for a future
5 period, doesn't it?

6 A. Well, it's a future test period because it
7 primarily relies on data that was produced prior to
8 January 1, 2008. And it was a fully-projected test
9 period at that time. So yes.

10 Q. So because we're engaged in the product of
11 producing -- in the process of producing an estimate,
12 in your judgment would it ever be too late for the
13 Commission to say that some part of the estimating
14 technique was inappropriate, and direct its correction
15 and a new estimate presented?

16 A. Well, I guess that, that's ultimately up to
17 the Commission. I think the problem is that in the
18 world you don't just have one thing change in
19 isolation to everything else. For example, if the
20 forward price curve changes, other things change.

21 And if you go back to my direct testimony, to
22 my Exhibit CCS 4.4. What you see here is a list of
23 items that the Company normally includes when it does
24 an update to a test year in the Oregon case. And it
25 shows some 19 changes.

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1 And some of those were Commission ordered,
2 but a great number of them were things that happened
3 between the time the Company had filed its case
4 earlier in the year and the end of the year. So if
5 you're going to do an update for say forward curves,
6 there's also things that go along with that.

7 There's different short-term firm
8 transactions. There's new resources that came online.
9 There is updated numbers, and all sorts of things.
10 There's new contracts. So the, the problem is that if
11 you just pick one item, like a forward curve, and you
12 don't address all of the other things that might have
13 changed, it becomes sort of a one-sided exercise.

14 Q. Your argument is basically you've got to be
15 fair if you direct things. But would it be fair to
16 say also that, because this is an estimate for a
17 future period, time doesn't bar us from correcting the
18 estimate?

19 A. Well, certainly time doesn't bar you from
20 correcting the estimate and doing a better job of it.
21 What -- I can only refer to what's done in one other
22 state where there is sort of a process. The
23 Commission says, Okay, on these dates you can update
24 these items. And then as we go throughout the year we
25 have specific milestones where specific types of

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1 things are updated.

2 So that takes a lot of the subjectivity out
3 of it. And it makes it so it's a more fair process,
4 even though it has its own issues. But nonetheless,
5 it's better to do that I think than to sort of have a
6 loose process where it's kind of -- certainly I don't
7 think it's fair to let the updating selection process
8 be done at the Company's discretion. Or even the
9 question of allowing an update to be done at the
10 Company's discretion.

11 Q. Were you in the hearing room this morning
12 when Mr. Duvall suggested that power costs were about
13 \$100?

14 A. I heard that, yes.

15 Q. Do you know what the power cost is today?

16 A. You know, I don't know specifically. There's
17 a lot of different markets. And I don't know, you
18 know, I don't really track them on a daily basis.

19 Q. Have you had occasion to look at the mid-C
20 price firm today for spot power?

21 A. You showed it to me.

22 Q. And what was that price?

23 A. It was over 900, as I recall.

24 Q. Nine dollars and sixty-six cents?

25 A. I thought it was \$966, so.

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1 Q. That was \$9.66.

2 A. Okay.

3 Q. We'll take all of that we can get.

4 MR. REEDER: I have nothing further.

5 THE WITNESS: Okay. Well, I'll accept that.

6 COMMISSIONER BOYER: Okay, thank you

7 Mr. Reeder.

8 Mr. Dodge?

9 MR. DODGE: Thank you, Mr. Chair. I do have
10 a very brief question.

11 CROSS EXAMINATION

12 BY MR. DODGE:

13 Q. Mr. Falkenberg, if you'll turn to page 13 of
14 your surrebuttal?

15 A. Okay. Almost there. I have it.

16 Q. Beginning on line 327, the sentence that
17 begins there. You say:

18 "Much of the difference between
19 recent history and the GRID results is
20 due to the load input."

21 A. Yes.

22 Q. By the recent history there are you talking
23 about Mr. Duvall's reference to actuals for 3/31/08?

24 A. That's right.

25 Q. And then the next sentence is:

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1 "For this reason, I believe
2 Mr. Duvall's criticism of my study
3 really amounts to a criticism of the
4 Commission's test year decision."

5 You'd agree though, wouldn't you, that the
6 Commission's test year decision didn't impact the
7 Company's projections for the first three months of
8 2008?

9 A. Well, I, I -- it didn't impact their
10 projections -- the first three months of 2008 were not
11 part of the original test year that the Company
12 proposed, because it was 12 months into June 2009.
13 The Commission did ask the Company or direct them to
14 update their filing, I guess as they saw appropriate,
15 and the Company didn't do that.

16 So the load inputs never really changed. We
17 used the same load inputs when we created the 2008
18 test year along the way.

19 Q. And my point is simply, you seem to be
20 juxtaposing the test year decision with the difference
21 between actuals and GRID model for the first three
22 months of '08.

23 A. Okay, I understand.

24 Q. My suggestion is, those two really aren't
25 connected, are they?

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1 A. Right, now I understand your question. And
2 my point is that had the Commission used a later test
3 year, it would have reflected higher loads. The
4 12 months that Mr. Duvall is talking about had higher
5 loads than actually has happened in -- than actually
6 is contained in the 2008 test year.

7 So the real problem, or one of the real
8 problems is that the loads that Mr. Duvall was
9 referencing were higher than the loads in the current
10 test year. Now, the Commission could have picked a
11 later test year that had higher loads, and they chose
12 not to do it.

13 Q. Right. And my point was simply if the
14 Company misjudged its loads for the first three months
15 of '08 for use in the GRID model, that wasn't a result
16 of the Commission's test period order?

17 A. No. And I think that the fact that we had
18 this very high amount of load in the first three
19 months of the year may not be something that would
20 normally be reflected in a normalized setting because
21 it may have been due to abnormally cold weather.

22 MR. DODGE: Thank you. No further questions.

23 COMMISSIONER BOYER: Thank you, Mr. Dodge.

24 Mr. Lacey?

25 MR. LACEY: Thank you, we have no further

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1 questions.

2 COMMISSIONER BOYER: Okay. Let's turn to the
3 Commission. Commissioner Allen, have you any
4 questions of this witness? Commissioner Campbell?

5 COMMISSIONER CAMPBELL: I just have one
6 question. And that is, there's been a lot of
7 discussion about the actual numbers that Mr. Duvall
8 provided. You, you make the statement as you look at
9 outage data that you had to do a sanity check and look
10 at four-year actual.

11 THE WITNESS: Yes.

12 COMMISSIONER CAMPBELL: What sort of sanity
13 check did you do for your overall net power cost
14 number?

15 THE WITNESS: Well, I compared it to the
16 Company's filing, and I saw that it was about
17 6 percent less than what the Company requested. I was
18 able to identify what each of the changes were. And I
19 think if you go back to my original Table 4 I broke it
20 out according to data changes, model changes, and that
21 sort of thing.

22 To me, a difference between their projected
23 number and my projected number -- which now is less
24 than 4 percent -- it's now about 4 1/2 percent -- that
25 doesn't strike me as being a real substantial

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1 difference in the sense that it makes you require any
2 kind of additional analysis.

3 I mean, we're doing projection of over a
4 billion dollars. I think it's reasonable to expect
5 parties are gonna differ by, you know, 3, 4, or
6 5 percent. And then it's a matter of trying to
7 understand the impacts of each of the changes, and
8 whether those individual items make sense in the
9 context of the overall number. Most of the items I'm
10 changing are changes of a percent or less.

11 COMMISSIONER BOYER: Just a question or two,
12 Mr. Falkenberg. It's fairly obvious from your written
13 testimony and also your summary this morning that you
14 have considerable concern with the GRID logic.

15 And I believe you stated in your summary that
16 the Company -- and I don't want to put words in your
17 mouth -- but is reluctant to change the GRID unless
18 they get to change other things, such as forward curve
19 numbers and that sort of thing.

20 And I think you were in the room when
21 Mr. Duvall testified that they have, in fact, tried to
22 change GRID over time. And have amended and
23 corrected. And they even thought they had the
24 commitment logic corrected, but it turns out it didn't
25 work.

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1 Do you have any reason to believe that
2 they're not making good faith efforts to improve GRID?

3 THE WITNESS: Well, I don't question whether
4 they're making good faith efforts. I think that the
5 real question comes down to a matter of priorities,
6 and the number of people that they have available to
7 work on these things.

8 The Company doesn't have as many people in
9 that area as they had in the past. They've lost a
10 number of senior people. So the ability to make some
11 of these changes I think is, is something that I think
12 is open to question at this point in time.

13 The other problem, though, that I have is
14 that when you look at the kinds of changes they've
15 made, they've always been addressed at trying to fix
16 the latest symptom of the problem rather than really
17 trying to get to the underlying issue.

18 And that's sort of understandable also,
19 because when you have a model and it's pretty
20 complicated sometimes it's easier to try to fix things
21 around the edges than it is to really redesign the
22 whole thing.

23 And I don't know how big of a job it would be
24 to fix this issue. It may be a very big job. But
25 with the way in which I've developed the analysis,

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1 there's a clear-cut way to solve it on a case-by-case
2 basis. But it just isn't automatic.

3 COMMISSIONER BOYER: Does the fact that the
4 Company uses work arounds and screens and so on to get
5 around these deficiencies in GRID present a problem
6 for you and others who use the GRID model?

7 THE WITNESS: No. And the, the fact of the
8 matter is, I mean, in this particular case I'm the one
9 that proposed the work arounds. I'm the one that
10 identified the fact that the new logic didn't work.
11 The Company has now acknowledged that.

12 One thing that has been a problem is that in
13 prior cases, for example, we've asked the Company
14 questions like, Why do you shut down the combustion
15 turbine units at night? And they come back with an
16 answer that said, Well, we don't think they'll run at
17 night on a normal basis.

18 Well, I think that the truth of the matter is
19 that that was done to address the problem on economic
20 generation. So I don't think they've always been
21 totally forthcoming about deficiencies in the model.

22 COMMISSIONER BOYER: Okay. Thank you,
23 Mr. Falkenberg.

24 Back to you, Mr. Proctor, for any redirect.

25 MR. PROCTOR: Thank you, Mr. Chairman.

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1 REDIRECT EXAMINATION

2 BY MR. PROCTOR:

3 Q. Mr. Falkenberg, you were asked a number of
4 questions about your testimony and the Commission's
5 order in the 2001 general rate case. Do you recall
6 that?

7 A. Yes.

8 Q. What was the difference in the test period
9 that was utilized in 2001 from the test period that's
10 utilized in this particular case?

11 A. 2001 was a fully historic test period that
12 was supposed to be normalized. There was not any
13 provision for noting measurable changes. Of course
14 2008 we're dealing with a fully-projected test year,
15 so that's I think a totally different animal.

16 Q. How does that difference between test periods
17 impact an analysis of past actual net power costs?

18 A. Well, in the prior case of course what we
19 were trying to do was take actual data and normalize
20 it. So I think it makes more sense in a case like
21 that to look at how the actual compares with the
22 normalized, than it would be in a case like this where
23 we're looking at really what amounts to a
24 fully-projected test year.

25 And we've got a lot of differences. So

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1 that's why I think that it was a different situation
2 in the past. I think the comparison was more
3 meaningful.

4 Q. Finally Mr. Falkenberg, you were asked
5 concerning a passage on page 14 to your surrebuttal
6 testimony. It was at line 315?

7 A. Sure it wasn't my direct?

8 Q. Yes, I'm sorry. I apologize. I've got both
9 pages underlined. You're right.

10 A. Okay.

11 Q. Beginning at line 391.

12 A. Yes.

13 Q. What was the scope of your reference there to
14 the Company's efforts?

15 A. Right. Well, in this context I was speaking
16 only in the limited sense of talking about the
17 Company's decisions to commit units, to shut down
18 units at night, and to dispatch units.

19 And what I'm saying is in the context of the
20 daily dispatch and commitment to generating units I
21 have no reason to doubt that the Company is making its
22 best effort to minimize cost.

23 Q. Is there a nexus between your statement at
24 page 14 and recovery of actual costs as the Company
25 has suggested, particularly in Ms. McDowell's final

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1 questions this morning?

2 A. Well, not really, because the context of what
3 I was talking about there was one particular aspect of
4 the Company's operations. I wasn't talking about
5 everything in total. To create a connection between
6 actual cost and normalized projected cost you've got
7 to do a lot of things.

8 You've got to verify the actual costs.
9 You've got to make sure that the actual costs were all
10 prudent. You've got to make sure that the actual
11 costs would all recognize -- would all reflect sort of
12 normalized operations.

13 On the flip side, if you're talking about the
14 model, you've got to have the model reflect
15 reasonable, prudent, actual operating practices as
16 they actually take place.

17 And so a comparison that just takes raw
18 actual cost data and then says, Well, how does that
19 compare to GRID, is only useful if you can make the
20 kind of comparisons that I made in my Table 2 in
21 surrebuttal where I tried to identify what the
22 differences were.

23 And the differences between that historic
24 period and our actual test year are so substantial I
25 think as to render the whole issue kind of

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1 questionable.

2 MR. PROCTOR: Thank you, Mr. Falkenberg. I
3 have nothing further.

4 COMMISSIONER BOYER: Well, I believe that
5 concludes today's witnesses. Tomorrow we'll be
6 hearing from witnesses -- Committee witness Donna
7 DeRonne and Rocky Mountain witness Bill Griffin. And
8 then we'll round out the day at 4:30 with public
9 witness -- a public witness opportunity. So we'll see
10 you tomorrow morning at 9:00. Thank you.

11 (The hearing was recessed at 1:50 p.m.)

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C E R T I F I C A T E

STATE OF UTAH)
) ss.
COUNTY OF SALT LAKE)

This is to certify that the foregoing proceedings in the matter of Docket No. 07-035-93 were taken before me, KELLY L. WILBURN, a Registered Professional Reporter and Notary Public in and for the State of Utah.

That the proceedings were reported by me in stenotype and thereafter caused by me to be transcribed into typewriting. And that a full, true, and correct transcription of said proceedings so taken and transcribed is set forth in the foregoing pages, numbered 402 through 548, inclusive.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

WITNESS MY HAND AND OFFICIAL SEAL AT KEARNS, UTAH THIS 8th DAY OF June, 2008.

Kelly L. Wilburn, CSR, RPR
My Commission Expires:
May 16, 2009

Kelly L. Wilburn, CSR, RPR
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